A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 2, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Assistant to the Chairman
Mr. Goldenweiser, Economic Adviser, Division of Research and Statistics
Mr. Smead, Director of the Division of Bank Operations
Mr. Parry, Director of the Division of Security Loans
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, Assistant General Attorney
Mr. Ellis, Assistant Director of the Division of Research and Statistics
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Wyatt, General Counsel
Mr. Hansen, Special Economic Adviser to the Board
Mr. Gardner, Chief of the International Section of the Division of Research and Statistics
Messrs. Triffin, Thorne, and Grove and Miss Bourneuf, Economists in the Division of Research and Statistics

Mr. Triffin completed his report on his recent mission to Latin America, outlining in that connection conditions in the various countries which he visited and the work he was able to accomplish during the mission. The substance of his statement, which covered his visits to

Argentina, Uruguay, Brazil, and Costa Rica, is contained in memoranda prepared by him under date of January 10 and 11, 1945.

Following his report Mr. Triffin referred again to certain matters in connection with Latin America on which decision or guidance by the Board was desired. These questions are discussed in a memorandum prepared by Mr. Triffin under date of January 11, 1945. He also referred to a request received from Salvador that the Board suggest the name of a mortgage expert who might assist in reorganizing the mortgage bank in that country. It was understood that these matters would be discussed by Mr. Szymczak with appropriate members of the staff and that he would submit recommendations as to action to be taken by the Board.

A brief statement was also made by Mr. Grove on his work in South America as outlined in a memorandum which he addressed to the Board under date of January 11, 1945.

In connection with the personnel needed to do the work for the Board on banking and monetary matters in Latin America similar to the work being done by Messrs. Triffin and Grove, and the possibility of bringing citizens of Latin American countries into the Board's organization on scholarships and other similar temporary arrangements, there was a discussion of the procedure and policy of the Board with respect to visitors from South American countries. It was agreed that special attention and consideration should be given to such visitors.

At this point Messrs. Gardner, Hansen, Triffin, Thorne, and

Grove and Miss Bourneuf withdrew from the meeting.

There were presented telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Banks of Chicago, St. Louis, and San Francisco on January 30, by the Federal Reserve Bank of Atlanta on January 31, by the Federal Reserve Banks of New York, Philadelphia, Kansas City, and San Francisco on February 1, 1945, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At Mr. Draper's request there was read a memorandum addressed by him to the Board under date of January 18, 1945, as follows:

> "It seems to me that the time has come for the Board to consider again the matter of raising the margin requirements, preferably with a view to bringing the matter to a decision. My recommendation would be that the requirements for purchases be raised from the 40 per cent level to the 50 per cent level, thus putting them on the

"same percentage basis as the present requirement for short sales.

"My principal reason for favoring such action at this time is that it is called for by the responsibility placed on the Board by Congress. That responsibility is to 'prevent' excessive use of credit for purchasing or carrying securities and effective prevention requires action before an upward movement of stock prices has acquired too much momentum. If action is not taken soon enough, the situation may get so far out of hand that the most we can do would be ineffective.

"The case for the proposed action is much the same as when we last considered the matter, only somewhat stronger. The general level of stock prices during recent weeks has been rising to a succession of new seven-year highs. The volume of trading is again above normal, frequently approximating two million shares per day. The volume of stock-market credit (as measured by customers' debit balances) is again increasing. After having been at the $500 million dollar level in the summer of 1942 and at the $950 million dollar level from last July to last November, it has increased to the billion dollar level and perhaps somewhat more -- and is for the first time above any level since the beginning of 1938.

"The fact that the amount of stock-market credit in use is still not very large is counter-balanced, in my opinion, by its upward tendency and the other factors in the situation. Among these is the fact that the proportion of margin trading by the public, which is seldom less than 40 per cent, commonly rises to the 50 per cent level on sharp advances in the market. The important consideration is that margin trading is in its very nature speculative and that when margin trading by the public begins to rise to an abnormal level we are given a significant signal. Along with the increase in the proportion of such trading, there is also an increase in the absolute number of shares which are being carried in margin accounts.

"If the Board should decide to raise the margin requirements as herein recommended, I should favor letting the action speak for itself, announcing it without accompanying explanation or comment. This has been our usual practice and I see no reason for departing from it."

Chairman Eccles stated his feeling that there could be no objection to the action proposed by Mr. Draper to the extent that it served the purpose of placing purchases and short sales of securities on the same margin basis, as there was no longer any justification for the existing differential, but that there was a question as to what significance it might have as a step in the direction of deterring speculative trading in the market. He also said that discussions were now being carried on by the Economic Stabilization Board, of which he was a member, of steps that might be taken in the field of taxation and credit control to prevent further inflationary developments, and that, for reasons which he outlined, he thought the problem would have to be attacked primarily through taxation and only secondarily through the use of credit controls. He added that he was preparing a memorandum on the matter for the Economic Stabilization Board and that he would prefer to await the outcome of these discussions before taking action on margin requirements beyond equalizing the requirements for purchases and short sales of securities.

Mr. McKee questioned whether it was not as possible to have a runaway securities market with a 50% margin under present conditions as it was in 1929 with a 25% margin and whether it would not be desirable for the Board to give careful consideration to how limited its powers were and to make it clear to the public and Congress that the authority of the Board is not sufficient to insure against a runaway

market under conditions that might develop.

There was a discussion of Mr. McKee's suggestion and the further point, raised by him, whether it was desirable to equalize margin requirements on purchases and short sales of securities. Mr. Parry stated that it was clear that the reason that existed for the differential when it was made effective by the Board no longer obtained, and that, therefore, the differential should be eliminated.

There was also a discussion of the point to which margin requirements might reasonably be raised for the purpose of preventing the excessive use of credit for the purchase or carrying of securities, and Chairman Eccles stated that, if effective action were not taken by the Government in the tax field to meet the threat of inflation and there was substantial speculation in the securities market, the Board should meet it by a vigorous increase in margin requirements.

In order to bring the matter to a vote Mr. Draper moved that the Board take action to reduce the maximum loan value of registered securities in a general account, prescribed in the supplement to Regulation T, and on stocks, as prescribed in the first paragraph of the supplement to Regulation U, from 60% to 50%.

Mr. Draper's motion was discussed in the light of statements by Mr. Goldenweiser of reasons why he thought the action contemplated in Mr. Draper's motion would not be desirable at this time, and by Mr. Parry of reasons why he would favor the action.

Mr. McKee moved, as a substitute for Mr. Draper's motion, that action on a change in margin requirements be deferred pending the outcome of the discussions of the Economic Stabilization Board, to which Chairman Eccles had referred.

This motion was put by the chair and lost, Mr. McKee voting "aye" and Messrs. Eccles, Ransom, Szymczak, Draper, and Evans voting "no".

Mr. Draper's original motion was put by the chair and carried, Messrs. Eccles, Ransom, Szymczak, Draper, and Evans voting "aye" and Mr. McKee voting "no".

In accordance with Mr. Draper's motion the following actions were taken by the Board. In this connection Mr. Draper and Mr. Parry explained that the action to reduce the maximum loan value for special omnibus accounts in the supplement to Regulation T and on registered stocks in the case of a loan to a broker or dealer as prescribed in the supplement to Regulation U was in accordance with the policy followed in the past of having a differential of 15% between the maximum loan value of securities in general accounts and special omnibus accounts under Regulation T, and between the maximum loan value for purposes of Section 1 of Regulation U, and on registered stocks in the case of a loan to a broker or dealer under that regulation.

On these actions Mr. McKee voted "no":

1. The following amendments to Regulations T and U were adopted, effective February 5, 1945:

"The Supplement to Regulation T is hereby amended effective February 5, 1945, by changing the maximum loan

"value figure '60 per cent' in the first paragraph to '50 per cent', and by changing the maximum loan value figure '75 per cent' in the second paragraph to '65 per cent', so that as thus amended the Supplement will read as follows:

"SUPPLEMENT TO REGULATION T

"ISSUED BY THE
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

"Effective February 5, 1945.

"Maximum loan value for general accounts. - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 50 per cent of its current market value.

"Maximum loan value for special omnibus accounts. - The maximum loan value of a registered security (other than an exempted security) in a special omnibus account, subject to section 4 of Regulation T, shall be 65 per cent of its current market value.

"Margin required for short sales. - The amount to be included in the adjusted debit balance of a general account pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 per cent of the current market value of each such security, and in the case of a special omnibus account with another member, broker or dealer, such amount shall be 35 per cent of such current market value."

"The Supplement to Regulation U is hereby amended effective February 5, 1945, by changing the maximum loan value figure '60 per cent' in the first paragraph to '50 per cent', and by changing the maximum loan value figure '75 per cent' in the second paragraph to '65 per cent', so that as thus amended the Supplement will read as follows:

"SUPPLEMENT TO REGULATION U

"ISSUED BY THE
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

"Effective February 5, 1945.

"For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method.

"Loans to brokers and dealers. - Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a special maximum loan value of 65 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank (1) accepts in good faith a signed statement to the effect that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) receives written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule X-8C-1 or Rule X-15C2-1), to the effect that the stock is a security carried for the account of a customer."

2. The following statement for the press was approved for release in the morning papers of Saturday, February 3, 1945:

"The Board of Governors of the Federal Reserve System today increased from 40 to 50 per cent the margin requirements for purchasing registered securities. The action is effective February 5. This brings the margin requirements for purchasing securities to the same level as that for making short sales. Text of the necessary amendments to the Board's Regulations T and U is attached."

Thereupon the meeting recessed and reconvened at 3:00 p.m. with the six members of the Board and Messrs. Morrill, Carpenter, Dreibelbis, Vest, and Cagle of the Board's staff, Mr. N. L. Leachman, Special Counsel for the Board, and Messrs. Ira Clerk, First Vice President, and Mr. A. C. Agnew, General Counsel, of the Federal Reserve Bank of San Francisco, being present.

In accordance with the decision reached at the meeting of the Board on January 31, 1945, there was a further discussion of the recommendations made by Messrs. Dreibelbis and Leachman with respect to procedure in connection with bank holding company affiliates, and Mr. Dreibelbis stated that it would take several days to work out the technical details of the recommendations, and that it would be his suggestion that only the questions of policy be considered by the Board at this meeting.

In the discussion which ensued it appeared that the staff members present, except Mr. Cagle, were in general agreement with the proposal that all outstanding voting permits be terminated. Mr. Cagle preferred to reserve his position until the views of the Federal Reserve Banks were obtained. All the members of the staff were opposed to termination without previous notice.

Mr. Clerk stated that he was in agreement with the proposal to terminate after notice.

Mr. Agnew referred to the suggestion made at the meeting of the Board on January 31, 1945, that all existing voting permits be terminated without previous notice with the understanding that provision would be made for the immediate issuance of temporary voting permits where that was found to be necessary. He stated that while he had been inclined to favor that procedure he had come to the conclusion that such action would be a mistake and that it would now be his recommendation that after the necessary staff work had been done on the proposed procedure, including the regulation and form of application, they be submitted in tentative form to the Federal Reserve Banks, and that after their suggestions had been obtained and before adoption by the Board the draft of regulation and form of application be submitted to the holding company affiliates for comment. While he thought that this procedure would not avoid litigation, as he would be surprised if one or more of the holding companies did not attack the action in the courts, the procedure would provide the most comprehensive and clearest basis for any litigation that might develop. He also felt that, while such a result was most unlikely, if the Board's efforts in this connection were determined by the courts not to be within its present powers, it would provide the best possible basis for asking Congress for additional legislation.

Mr. Cagle said that it was his suggestion that the proposal for termination of outstanding voting permits be first submitted to the Federal Reserve Banks which have holding company affiliates in their districts, and Chairman Eccles suggested that representatives of these banks be asked to come to Washington so that the whole background of the matter could be presented to them.

There was general agreement with this procedure with the understanding that when a consensus was reached with the Federal Reserve Banks the matter would be presented, through the Federal Reserve Banks, to the holding company affiliates for their comment.

There was further discussion of whether such a procedure would contemplate termination of existing voting permits without previous notice to the holding company affiliates, and it was agreed that that should not be done. In connection with this point Mr. Dreibelbis referred to a memorandum which he and Mr. Leachman had prepared setting forth the following reasons which appeared to them to make such action undesirable:

> "It has been suggested that the Board terminate all voting permits and advise the affected holding company affiliates after action has been taken, telling them at the same time that they may obtain a limited voting permit in the interim if the occasion should require. We do not favor such a procedure for the following reasons:

"1. While such action technically might not affect the legal right of the Board, we are persuaded that affording an opportunity to the affected holding companies to register any agreements would have psychological advantages in the event of any litigation.

"2. The Board's standing policy of affording affected parties an opportunity to register objections and suggestions in connection with the issuance of the Board's regulations has real advantages both from the public relation standpoint and from the valuable suggestions which have been received from time to time. We would not recommend departing from that procedure in a special case unless the advantages of departing outweighed the advantages of following the usual procedure. The mere fact that the Board had terminated a voting permit would not prevent any holding company from acquiring any further subsidiaries so that terminating without notice would not necessarily maintain a status quo.

"3. Finally, it must be remembered that all holding companies would become subject to the Investment Act of 1940 the minute general voting permits were terminated. They would continue to be subject to the Investment Company Act of 1940 even if temporary permits were issued unless at the same time the Board should determine such companies to be primarily engaged in the business of managing and controlling banks. In order to make such determination the Board would have to give the SEC an opportunity to be heard. This, of course, would be true if a future date for termination were fixed but we have good reason to believe that the SEC would not want to be heard except in the one or two cases where its recommendations probably would be in line with the Board's objectives. If we should go to the SEC now before terminating all permits and get them to agree not to be heard except in the one or two cases in which they are interested, we would be singling out these companies for special treatment and would lose one of the big advantages of the whole program."

At the conclusion of the discussion, it was agreed unanimously that arrangements should be made to have

representatives of the Federal Reserve Banks which have holding company affiliates in their districts come to Washington as soon as possible for a discussion of the proposed procedure, that in the meantime Messrs. Dreibelbis and Leachman would work out the technical details of the procedure with Mr. Cagle and other staff members, and that after the meeting with the representatives of the Federal Reserve Banks the matter would be presented to the Board again for further action looking to the submission of the proposed revision of Regulation P and application for a voting permit to the holding company affiliates for comment.

Thereupon, Messrs. Dreibelbis, Vest, Cagle, Leachman, Clerk, and Agnew withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 1, 1945, were approved unanimously.

Memorandum dated January 29, 1945, from the Personnel Committee recommending that Elliott Thurston be appointed a member of the Board's Committee on Deferment of Government Employees to succeed Mr. Clayton.

Approved unanimously.

Memorandum dated January 30, 1945, from Mr. Leonard, Director of the Division of Personnel Administration referring to the action

taken by the Board on January 4, 1945, in authorizing lump sum payments for accumulated and accrued annual leave in cases of separation from service and in cases of employees going into military or maritime service, who elect to receive payment for their annual leave. The memorandum stated that the resignation of Mr. Clayton had raised a question whether an employee of the Board could elect to receive payment in a lump sum for accumulated and accrued annual leave or to remain on the pay roll until the expiration of his leave, and that it was recommended, for the reasons outlined in the memorandum, that an employee who was resigning or being separated from service with the Board be given the option of receiving a lump sum payment for accumulated and accrued annual leave or of remaining on the pay roll as heretofore until the expiration of his leave.

Approved unanimously.

Letter to Mr. Rounds, Chairman, Retirement Committee, Retirement System of the Federal Reserve Banks, Federal Reserve Bank of New York, reading as follows:

> "From your letter of January 19, and subsequent conversation with Mrs. Frank, it appears that there may be some misunderstanding as to the intent of the Board's letter of January 17, 1945, regarding the instalment payment of accumulated contributions in the case of death in active service of a participant in the Board Plan.
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> "The Board's reply of January 17 related solely to the proposal under immediate consideration, namely, the payment of accumulated contributions in cases where the participant also has the death benefit provided by Section 9 of the Board Plan.

"The question of whether the instalment payment of accumulated contributions should also be permitted in case of death in active service when the participant does not have the death benefit under Section 9 was not submitted to the Board, and the Board's letter, therefore, does not cover such cases."

Approved unanimously.

With a letter dated January 26, 1945, Mr. W. F. Sheehan, Chief Examiner for the Federal Reserve Bank of New York, transmitted a copy of an agreement executed by Morgan & Cie. Incorporated, New York, New York, pursuant to the Board's letter of January 19, 1945.

In accordance with the Board's letters of December 14, 1944, and January 19, 1945, the following actions were taken:

1. An order was adopted by unanimous vote as follows:

"ORDER OF THE
BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM

"February 2, 1945

"WHEREAS Morgan & Cie. Incorporated, a corporation organized and existing under the laws of the State of New York and having its principal office and place of business at New York, New York, desires to establish a branch at Paris, France, for which the permission of the Board of Governors of the Federal Reserve System is required pursuant to the provisions of the agreement entered into with the said Board of Governors under the provisions of section 25 of the Federal Reserve Act; and

"WHEREAS it appears that the said Corporation may properly be authorized to establish a branch at Paris, France;

"NOW, THEREFORE, IT IS ORDERED that Morgan & Cie. Incorporated be and it hereby is authorized to establish a branch at Paris, France, upon the condition that unless

"the branch hereby authorized is actually established and opened for business on or before July 1, 1945, and the Board of Governors of the Federal Reserve System advised in writing that the branch has been so established and opened for business, all rights hereby granted as to such branch shall be deemed to have been abandoned and the authority hereby granted as to it shall automatically terminate; but, if the branch shall have been established and opened for business on or before said date and the Board of Governors of the Federal Reserve System shall have been so advised in writing, the said Corporation may operate and maintain the same subject to the provisions of the agreement entered into with the Board of Governors of the Federal Reserve System under the provisions of section 25 of the Federal Reserve Act."

2. The following letter to J. P. Morgan & Co. Incorporated, New York, New York, was approved unanimously:

"This refers to the application of your bank for permission of the Board of Governors of the Federal Reserve System, under the provisions of section 25 of the Federal Reserve Act, to invest in stock in Morgan & Cie. Incorporated, a corporation proposing to engage in international or foreign banking. Reference is also made to the agreement dated January 26, 1945, executed by Morgan & Cie. Incorporated in accordance with the requirements of section 25 of the Federal Reserve Act, by which such corporation agrees to restrict its operations and conduct its business in the manner set forth therein.

"The Board of Governors of the Federal Reserve System approves the application and grants permission to J. P. Morgan & Co. Incorporated, New York, New York, subject to all of the provisions of section 25 of the Federal Reserve Act, to invest in the stock of Morgan & Cie. Incorporated the sum of $850,000, representing 8,500 shares of the capital stock of such corporation having a par value of $100 per share, provided that such investment be consummated not later than July 1, 1945. Please advise the Board when the investment is made."

3. Unanimous approval was given to the following letter to Morgan & Cie. Incorporated, New York, New York:

"The Board of Governors of the Federal Reserve System has received the agreement dated January 26, 1945, entered into by your corporation pursuant to the provisions of section 25 of the Federal Reserve Act and has approved the application of J. P. Morgan & Co. Incorporated for permission to invest $850,000 in the stock of your corporation.

"Section 5 of the agreement provides that, except with the permission of the Board of Governors of the Federal Reserve System, the aggregate of the Corporation's liabilities, as defined by the section, shall not exceed ten times the amount of its subscribed capital and surplus. This is to inform you that the Board of Governors grants its permission for your corporation to exceed the prescribed limits, subject to the provisions of section 8 of the agreement and provided you will maintain a condition of liquidity consonant with the nature of your liabilities.

"Enclosed is a copy of the order authorizing your corporation to establish a branch at Paris, France. It will be appreciated if, when your Paris Branch is established and opened for business, you will transmit to the Board of Governors through the Federal Reserve Bank of New York a copy of the statement of condition of the Branch, which should also show any contingent liabilities.

"Special Regulation No. 15 of the Banking Board of the State of New York by subsection (3) of section (a) of Paragraph 3., Investment of Funds, provides that your corporation may invest in so much of the capital stock of any other corporation as may be specifically authorized by resolution of the Banking Board. You are requested, when application is made to the Banking Board for permission to invest in the capital stock of any other corporation, to furnish simultaneously a copy of such application to the Federal Reserve Bank of New York for transmission to the Board of Governors for its information.

"You are requested also to furnish to the Federal Reserve Bank of New York for transmission to the Board of Governors, certified copies of any amendments or certificates that may be filed from time to time with the State of New York in connection with your corporate organization and certified copies of any special regulations adopted by the State Banking Board applicable to

"your corporation. It is noted from your organization papers that your corporate existence expires September 12, 1946."

4. A letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, was approved as follows:

"The Board has received Mr. Sheehan's letter of January 26 transmitting the duly executed agreement entered into with the Board by Morgan & Cie. Incorporated, pursuant to the provisions of section 25 of the Federal Reserve Act.

"Attached is a letter to J. P. Morgan & Co. Incorporated granting the Board's permission to invest $850,000 in the stock of Morgan & Cie. Incorporated. Attached also is a letter to Morgan & Cie. Incorporated granting the Board's permission to exceed the prescribed limits on aggregate liabilities and to establish a branch at Paris, France. Please deliver these letters to the addressees. Copies of the letters are enclosed for your files."

Memorandum dated January 30, 1945, from the Division of Examinations submitting, in accordance with the recommendation contained in the Division's memorandum of January 11, 1945, a proposed amendment to Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, and drafts of seven letters in the form set forth below:

1. Letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York:

"In considering the request of J. P. Morgan & Co. Incorporated, transmitted with Mr. Sproul's letter of January 2, 1945, for the elimination from the agreement proposed to be entered into with Morgan & Cie. Incorporated, pursuant to the provisions of section 25 of the Federal Reserve Act, of the section which prescribed a

"limitation on the aggregate liabilities of Morgan & Cie. Incorporated in relation to its subscribed capital and surplus, the Board gave consideration to the effect of substantially similar provisions applicable to foreign banking corporations operating under agreements entered into with the Board and in the Board's Regulation K governing foreign banking corporations chartered by it.

"As you know, International Banking Corporation, French American Banking Corporation, and First of Boston International Corporation operate under agreements entered into with the Board and The Chase Bank is subject to the provisions of Regulation K. It is felt that the management and operation of these foreign banking corporations has been such as to justify the granting to them of the Board's permission to exceed the limits placed on the amount of their aggregate liabilities in relation to their subscribed capital and surplus. Accordingly, there are attached letters addressed to International Banking Corporation and French American Banking Corporation advising them that the Board grants permission for them to exceed the limits on aggregate liabilities prescribed in their agreements with the Board. There is also attached a letter to The Chase Bank advising that institution that the Board has amended the provisions of the paragraph entitled Aggregate Liabilities of the Corporation, of section XV, Regulation K, to provide that the limits prescribed therein may be exceeded with the Board's permission and that the Board grants such permission to The Chase Bank. It will be appreciated if you will transmit the letters to the institutions mentioned, copies of such letters being enclosed for your information and files.

"The Board is similarly amending the agreement of the First of Boston International Corporation, Boston, Massachusetts, whose operations are carried on in New York City. There are enclosed for your information and files copies of letters addressed in this connection to the Federal Reserve Bank of Boston and the Corporation.

"The agreement with the Bankers Company of New York limits the operations of that company solely to the holding of stock in a British fiduciary affiliate. In view of this situation, the agreement contains no provisions respecting the aggregate liabilities of the Bankers Company of New York."

2. Letter to Mr. Flanders, President of the Federal Reserve Bank of Boston:

"The Board has had occasion to consider the limits prescribed for foreign banking corporations, which have entered into agreements with it pursuant to the provisions of section 25 of the Federal Reserve Act, on the aggregate liabilities of such corporations in relation to their subscribed capital and surplus. Consideration has been given also to such limits prescribed in Regulation K for foreign banking corporations organized under the provisions of section 25(a) of the Federal Reserve Act.

"The Board has concluded that section 5 of the agreement entered into by First of Boston International Corporation, Boston, Massachusetts, should be amended to provide that the limits prescribed therein on its aggregate liabilities in relation to subscribed capital and surplus may be exceeded with the permission of the Board and that its permission in this connection be granted. Also, in order to clarify the period over which domestic and foreign deposits are to be averaged, the section should be further amended to place the period on a monthly basis.

"Attached is a letter addressed to First of Boston International Corporation amending its agreement with the Board to incorporate the changes mentioned. It will be appreciated if you will transmit the letter to First of Boston International Corporation, a copy of which is enclosed for your files."

3. Letter to the International Banking Corporation, New York, New York:

"The regulations of the Board of Governors of the Federal Reserve System, with which you have agreed to comply as a condition precedent to the purchase of stock in your corporation by national banks under the provisions of section 25 of the Federal Reserve Act, contain in paragraph B. Powers, sub-paragraph b. Acceptances, the provision that

'...in no event shall the aggregate of all your acceptances outstanding, plus the total of all deposits held by you, whether foreign or domestic, exceed twelve times the amount of your subscribed capital and surplus, except with the approval of the Federal Reserve Board.'

"This is to inform you that the Board of Governors approves your exceeding the prescribed limits, provided you will maintain a condition of liquidity consonant with the nature of your liabilities and subject to the right of the Board of Governors to modify or withdraw its approval as experience may prove to be necessary.

"Acknowledgment of this letter is requested."

4. Letter to the French American Banking Corporation, New York, New York:

"The regulations of the Board of Governors of the Federal Reserve System, with which you have agreed to comply as a condition precedent to the purchase of stock in your corporation by national banks under the provisions of section 25 of the Federal Reserve Act, contain in paragraph B. Powers, sub-paragraph b. Acceptances, the provision that

'...in no event shall the aggregate of all your acceptances outstanding, plus the total of all deposits held by you, whether foreign or domestic, exceed twelve times the amount of your subscribed capital and surplus, except with the approval of the Federal Reserve Board.'

"Your application to exceed the limits prescribed was approved by the Board of Governors on April 9, 1940, with the understanding that you would continue to maintain a condition of liquidity consonant with the nature of your liabilities and upon condition that, as of the end of each month, you submit to the Board of Governors through the Federal Reserve Bank of New York a report showing certain information regarding your condition.

"This is to inform you that the reports which you have been submitting monthly to the Board of Governors may now be discontinued and that the approval of the Board of Governors for you to exceed the prescribed limits is hereby continued with the understanding that you will maintain a condition of liquidity consonant with the nature of your liabilities and subject to the right of the Board of Governors to modify or withdraw its approval as experience may prove to be necessary.

"Acknowledgment of this letter is requested."

5. Letter to the First of Boston International Corporation, Boston, Massachusetts:

"Under date of May 11, 1935, your corporation executed an agreement with the Board of Governors of the Federal Reserve System pursuant to the provisions of section 25 of the Federal Reserve Act, which agreement by section 5 prescribed a limit on the total liabilities of your corporation in relation to its subscribed capital and surplus.

"The Board of Governors has concluded that section 5 of the agreement should be amended to provide that the limits prescribed therein may be exceeded with the permission of the Board of Governors and that the period over which domestic and foreign deposits are to be averaged should be clarified by placing it on a monthly basis. In order to accomplish this purpose, the Board of Governors desires that section 5 of the agreement of May 11, 1935, be amended to read as follows:

'That, except with the permission of the Board of Governors of the Federal Reserve System, the aggregate of the Corporation's liabilities outstanding on account of acceptances, monthly average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed 10 times the amount of the Corporation's subscribed capital and surplus, and that in determining the amount of the liabilities within the meaning of this paragraph, indorsements of bills of exchange having not more than 6 months to run, drawn and accepted by others than the Corporation, shall not be included;'

"It will be appreciated if your corporation will advise the Board of Governors of its acceptance of this proposed amendment to section 5 of the agreement of May 11, 1935, and forward to the Board a copy of a resolution of the board of directors of your corporation authorizing such acceptance.

"The Board of Governors grants its permission for your corporation to exceed the prescribed limits, subject to the provisions of section 8 of the agreement and provided you will maintain a condition of liquidity consonant with the nature of your liabilities.

"Acknowledgment of this letter is requested."

6. Letter to The Chase Bank, New York, New York:

"The second paragraph, captioned 'Aggregate Liabilities of the Corporation', of section XV of the Board of Governors' Regulation K, Banking Corporations Authorized to do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, provides that the aggregate liabilities of such a corporation shall not exceed at any one time ten times the amount of the corporation's subscribed capital and surplus. The Board recently has had occasion to review its policy as expressed in this part of the regulation and has amended the paragraph, effective as of this date, so as to provide that with the permission of the Board the limitation placed on the aggregate liabilities of such a corporation may be exceeded. A copy of the amendment is enclosed for your information.

"This is to inform you that the Board of Governors grants its permission for you to exceed the prescribed limits, provided you will maintain a condition of liquidity consonant with the nature of your liabilities and subject to the right of the Board of Governors to modify or withdraw its approval as experience may prove to be necessary.

"Acknowledgment of this letter is requested."

7. Letter to the Presidents of all of the Federal Reserve Banks:

"The second paragraph, captioned 'Aggregate Liabilities of the Corporation', of section XV of the Board's Regulation K, Banking Corporations Authorized to do Foreign Banking Business under the terms of Section 25(a) of the Federal Reserve Act, provides that the aggregate liabilities of such a corporation shall not exceed at any one time ten times the amount of the corporation's subscribed capital and surplus. The Board recently has had occasion to review its policy as expressed in this part of the regulation and has amended the paragraph, effective as of this date, so as to provide that with the permission of the Board the limitation placed on the aggregate liabilities of such a corporation may be exceeded.

"A copy of the amendment is enclosed, and it will be appreciated if you will make such distribution thereof

"in your district as appears to you to be desirable. No public announcement is being made by the Board with respect to the amendment except that it will appear in the Federal Reserve Bulletin in the usual course."

By unanimous vote the Board adopted the following amendment to Regulation K and approved the seven letters submitted by the Division of Examinations in the form set forth above:

"AMENDMENT TO SECOND PARAGRAPH OF SECTION XV OF REGULATION K

"Effective February 2, 1945, the second paragraph of section XV of Regulation K is amended to read as follows:

'Aggregate liabilities of the Corporation. - Except with the permission of the Board of Governors of the Federal Reserve System, the aggregate of the Corporation's liabilities outstanding on account of acceptances, monthly average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed ten times the amount of the Corporation's subscribed capital and surplus. In determining the amount of the liabilities within the meaning of this paragraph, indorsements of bills of exchange having not more than six months to run, drawn and accepted by others than the Corporation, shall not be included.'"

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

"In connection with guarantees on behalf of the Navy Department under Executive Order 9112 and the Contract Settlement Act of 1944, there is enclosed herewith a copy of a memorandum received by the Board from the Navy Department, dated January 29, 1945, signed by Commander Donald P. Welles, Chief of Finance Division, together with photostats of the enclosures with Commander Welles'

"memorandum, regarding the appointment of Mr. Vincent deP. Goubeau, as Assistant Chief in Charge of Procurement, and of Lieutenant Commander George W. Cook, as Deputy Chief of the Finance Division.

"For your information, the letters from the Chief of the Office of Procurement and Material, dated August 7, 1944, and February 27, 1943, referred to in Commander Welles' memorandum, were transmitted to your Bank by the Board with letters dated August 10, 1944, and August 14, 1943 (S-677), respectively. There is enclosed a copy of the provisions of paragraph 314.2 of the Army-Navy Joint Termination Regulation, also referred to in Commander Welles' memorandum."

Approved unanimously.

Letter to Honorable Robert A. Taft, United States Senate, prepared for the signature of Chairman Eccles and reading as follows:

"At the hearings on January 10 of the Subcommittee on Housing and Urban Redevelopment of the Special Committee on Postwar Economic Policy and Planning, Mr. Fahey, Commissioner of the Federal Home Loan Bank Administration, with the support of Mr. Blandford, Administrator of the National Housing Agency, urged the passage of the bills H.R. 595 and H.R. 594 (which have also been introduced in the Senate as S. 179 and S. 180). These bills (except for the omission of one point) are the same as S. 756 and S. 757, respectively, which were before the 78th Congress and on which hearings were held in May 1944. In a letter dated May 24, 1944 to Senator Wagner, the Board of Governors of the Federal Reserve System expressed its opposition to passage of these bills. Mr. Fahey and others disagreed with the position we took, and in a letter dated December 16, 1944 to Senator Radcliffe, the Board discussed the bills in some detail, pointed out the specific aspects of the bills to which the Board objected, and suggested changes which would make certain provisions of the bills acceptable.

"As far as I am aware, no objection has been made to this second letter. I am therefore enclosing a copy

"of it, and I shall here set forth some of its more important points. It may be noted that Mr. Fahey, in the testimony referred to above, did not mention any counterpart of what was S. 1034 in the 78th Congress.

"In H.R. 594 (corresponding to S. 757 in the 78th Congress), we have no objection to the authorization of Federal savings and loan associations to lend on (1) the security of notes alone, if the associations are insured against loss under Title I of the National Housing Act, and (2) home mortgages insured under Title II of the National Housing Act which have maturities up to 25 years. We have no objection to the parallel provisions of section 1 of H.R. 595 (corresponding to S. 756 in the 78th Congress) which would permit the Federal Home Loan Banks to make advances secured by such loans.

"We do not believe that the remaining provisions of H.R. 594 and of section 1 of H.R. 595 should be enacted. The predominant investments of savings and loan associations should be home mortgages, and the powers of associations to invest in mortgages on apartment houses and other business properties should not be extended beyond their present scope.

"Section 2 of H.R. 595 makes an appreciable change in the basis on which the Federal Home Loan Bank System may issue debentures to the public. At present, the amount of debentures outstanding may not exceed the amount of advances from the Banks to their members which are secured by mortgages of a type defined by Congress. The proposed change would permit debentures to be issued for a much larger amount and for much broader purposes by including in the debenture base all Government obligations owned by the Banks, whether held as part of their reserves or not, as well as advances to members secured in any way whatever. The provisions of the present law give the Federal Home Loan Bank System adequate access to investment funds to permit it to perform the functions which it was established by Congress to perform. We feel, therefore, that section 2 of H.R. 595 should not be enacted.

"Section 3 of H.R. 595 authorizes the Secretary of the Treasury to purchase obligations of the Federal Home Loan Bank System and of the Federal Savings and Loan Insurance Corporation with certain limitations on amount.

"We have no objection to the stated purpose of this section, but we do object to the broad terms in which the proposed legislation is couched. We have therefore suggested that the purpose of the section and the conditions under which it may be used be clearly defined by Congress.

"The broad problems at which this proposed legislation is aimed are important, and the Board has no desire to see them ignored. We do not believe, however, that the legislation offered is desirable for the reasons set forth in some detail in our letter of December 16.

"Your subcommittee is holding hearings with the purpose of developing a Federal housing policy and program for the postwar period. To my mind, the basic task of a housing policy or a housing program should be to bring our housing supply up to decent standards for the middle and lower income groups, and to make possible a continuous bettering of the housing available for all income groups at the lowest possible cost. If, after the transition period, when men and materials are available, we are to establish really good housing standards in a reasonably short time, and if residential building is to contribute its share to full employment after the war, then all the activities associated with residential building will need to be at levels far above any we have known before, and will have to be sustained at these high levels without the wide fluctuations to which building has been subject in the past.

"Strictly from the point of view of the provision of housing, fluctuations in residential building are bad for two reasons: first, they mean that we are operating at less than capacity, and thus are obtaining less housing than we could have; and second, irregular operations give rise to costs which could be avoided if operations were continuous. If we are to obtain the volume of building which Mr. Blandford has testified we need (and I should agree that our need is at least as great as he has shown) at costs which people can bear, we must eliminate the wide fluctuations in residential building.

"How to obtain continuous building of houses at the high level required is a question which will require a great deal of study, and measures will have to be adopted by the Federal Government as well as by State and local authorities and by private individuals and groups. I should like to emphasize that the question must be faced

"as a question of providing housing. Programs designed to raise national income, prevent unemployment, and maintain a sound credit structure will make it easier for us to obtain the quality of housing which we can have; but the problems in the housing field are sufficiently difficult and individual to require special attention. At the same time, the measures adopted to stimulate the provision of housing must be compatible with the smooth functioning of the economy generally.

"The bills sponsored by the Federal Home Loan Bank Administration are aimed at some of the problems of financing housing. The main fault I have to find with those provisions of the bills objected to by the Board of Governors is that, in the field of housing finance, they look, basically, to making institutions developed to meet one kind of need meet quite a different kind; and in the field of credit generally, they would weaken the controls of credit policy which the Nation has built up over the years.

"The bills, if enacted, would permit Federal savings and loan associations to participate much more in the mortgage financing of rental housing. I believe any comprehensive housing program must give greater emphasis to rental housing than has been given in the past, but I do not feel at all confident that rental housing can be provided soundly if it has to rely on financing techniques which have been developed for owner-occupied housing. Rather than try to make it possible for institutions such as savings and loan associations and commercial banks to provide more mortgage financing for large rental projects, I think we should try to work out new financing devices more closely adapted to the needs of rental housing. One of these needs seems to be much more equity capital than there has been in the past. This may mean that different kinds of institutions, enterprises, and techniques such as limited dividend corporations, and yield insurance should be encouraged, although I am not prepared now to make recommendations for legislation on these subjects.

"The bearing of these bills on control of credit policy is not remote. Investment in housing is long-term investment, and individuals should not be induced to engage in it under the impression that their investment is liquid. Liquidity cannot be obtained for investments in institutions such as savings and loan associations unless

"either the institutions themselves follow a policy of investing a large portion of their assets in short-term loans, or the Government or central bank gives a commitment to rediscount or buy any mortgage loan offered to it. Savings and loan associations cannot follow a policy of liquid investment and still perform their function. A sound credit and fiscal policy cannot be carried out if there is a Government or central bank commitment to turn mortgages into cash, but H.R. 595 is a step in the direction of such a commitment.

"Because a housing policy and program must be framed in response to the special problems of housing and, at the same time, the measures adopted to meet these problems must be integrated as closely as possible with the operations of other parts of the economy, I should like to see the National Housing Agency established as a permanent Federal agency, but with somewhat different and more extensive duties than it has had during the war. It should be responsible for correlating the activities of the Federal agencies which have already been developed, but it should do much more than this. It should be responsible for studying housing problems, with the assistance of all interested parties, particularly State and local authorities, and for developing solutions which can be put into effect by existing agencies, or can be proposed to the appropriate legislative bodies. Both in formulating programs for the consideration of Congress and in carrying out programs agreed upon, the agency should work closely with other agencies of Government to assure that measures taken for the improvement of housing conditions are consistent with measures which must be taken in other parts of the economy. In saying this, I do not suggest that other agencies, such as the Federal Reserve System, the Treasury, and the Social Security Board should fashion or veto housing programs. I do mean to say that if we are to do the job of bringing our housing up to what it should be, measures will be needed which will impinge at many points on areas for which many different agencies have responsibilities to Congress and to the Nation. A National Housing Agency with the duties I have sketched very briefly could do much to avoid conflicts, not only among housing agencies themselves, but also between the housing agencies and other Executive Agencies."

Approved unanimously.

2/2/45

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.