

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 27, 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. Hammond, Assistant Secretary
Mr. Connell, General Assistant
Mr. Thurston, Assistant to the Chairman
Mr. Vest, General Attorney
Mr. Goldenweiser, Economic Adviser,
Division of Research and Statistics
Mr. Thomas, Director of the Division of
Research and Statistics
Mr. Ellis, Assistant Director of the
Division of Research and Statistics
Mr. Smead, Director of the Division of
Bank Operations
Mr. Horbett, Assistant Director of the
Division of Bank Operations
Mr. Wyatt, General Counsel

Mr. McKee referred to a memorandum dated May 26, 1945, from Mr. Smead to the Board of Governors relating to the application for the termination of the designation of Savannah, Georgia, as a reserve city, and the proposed amendment to Regulation D to provide that a member bank with a branch in a reserve or central reserve city shall be required to maintain the same reserves as banks with head offices in such cities.

The memorandum stated that the replies received from the Federal Reserve Banks to the Board's letter of April 25, 1945, asking

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for their comments on the proposed amendment indicated that the Federal Reserve Banks of Boston, New York, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas were favorable to the amendment; that Philadelphia, Richmond, and St. Louis were unfavorable; and that Cleveland and San Francisco were noncommittal. It also stated that the Federal Reserve Banks of Philadelphia, Richmond, and St. Louis had suggested that required reserves should be based on the respective location of each office of a bank with branches and that this suggestion had been considered before the Board's letter of April 25, 1945, was sent but was rejected for the reasons that (1) the Board had consistently held that as a matter of law a bank and its branches are a single entity, (2) it was recognized that country banks with branches in central reserve or reserve cities usually do a business comparable to that done by central reserve or reserve city banks, and, (3) that the suggestion would result in a substantial reduction in required reserves of banks the business of which was characteristic of reserve city banks. Examples to illustrate the last point were set forth in the memorandum, together with a schedule showing the increased reserves that would have to be provided under the amendment by the banks that would be affected by it.

It was the feeling of several members of the Board that the suggestion of the three Reserve Banks last mentioned would open the way to substantial shifts of deposits from reserve city offices of

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branch banking systems to country offices and that it would be undesirable for that additional reason.

In discussing the proposed amendment Mr. McKee cited the case of the First Camden National Bank and Trust Company of Camden, New Jersey, which has for many years operated an office in the old downtown section of Philadelphia. Although the general books and accounts of record were maintained by the parent bank in Camden and the operations conducted by the Philadelphia office were similar to those of a receiving and paying station, under the proposed amendment it would be necessary for the bank to maintain reserves on the same basis as a reserve city bank.

Mr. Smead's memorandum expressed the opinion that, for the reasons outlined and since the Philadelphia branch of the First Camden National Bank and Trust Company could not be considered to be in an outlying district and, therefore, could not be specifically authorized to carry reduced reserves, it would suffer most if the proposed amendment were adopted.

Mr. McKee stated that he had advised Mr. Archer, President, that he would undertake to present the special situation of the bank in relation to the proposed amendment for the consideration of the Board. To this end he presented a draft of amendment which would in effect exempt the Camden bank from the requirement of maintaining higher reserves.

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Mr. Vest expressed the opinion that there was adequate legal authority for the amendment in the form submitted with Mr. Smead's memorandum but that the matter was not free from doubt, and that if an exception were made by the amendment presented by Mr. McKee it might make it more difficult to defend the proposal as a whole should its validity be challenged. It was the feeling of the members of the Board, after full consideration, that such an exception would be undesirable.

A general discussion followed as to the effect the amendment would have on the Wachovia Bank and Trust Company of Winston-Salem, North Carolina, which maintains an office in Charlotte, a reserve city; the Michigan National Bank of Lansing, Michigan, which operates an office in Grand Rapids; and the Citizens and Southern National Bank of Savannah, Georgia, which would be affected if, in response to the request received by the Board, the reserve city designation of Savannah were terminated, since it operates a branch in Atlanta, Georgia. The only other banks with main offices in nonreserve cities but with branches in reserve cities were the Annapolis Banking and Trust Company, Annapolis, Maryland, which operates a branch within the city limits of Baltimore, and the Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio, which maintains an office in Cincinnati. In both cases, however, the branches are located in outlying sections of the reserve cities and it was agreed that the two banks should be permitted to carry reserves on a country

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bank basis under the proviso of the proposed amendment.

In connection with a comment that the proposed amendment would work to the disadvantage of branch banking units in favor of unit banks and group and chain banking systems, Mr. Goldenweiser suggested that the only way in which the problem could be solved effectively would be through legislation which would place the reserves of all banks on a uniform basis. There was general agreement on the part of the members of the Board with Mr. Goldenweiser's statement.

At the conclusion of the discussion, upon motion duly made, the following amendment to Regulation D was adopted by unanimous vote, to become effective August 1, 1945, with the understanding that the Federal Reserve Banks and the Comptroller of the Currency would be advised of the action by letter and that the Reserve Banks would be asked to have the amendment printed for distribution to member banks in their respective districts:

"RESERVES OF MEMBER BANKS

"AMENDMENT TO REGULATION D

"Issued by the Board of Governors of the Federal Reserve System

"Section 2, subsection (a) of Regulation D is amended, effective August 1, 1945, by inserting immediately before the last paragraph of such subsection the following new paragraph:

'For the purposes of this subsection and of paragraph (1) of subsection (a) of section 3 of this regulation, a member bank shall be considered to be in a central reserve city if the head office or any branch of such bank is located in a central reserve city, and a member bank shall be considered to be in a reserve city if the head

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"office or any branch thereof is located in a reserve city and neither the head office nor any branch thereof is located in a central reserve city; provided that, if a member bank is considered to be in a central reserve city or a reserve city under this paragraph solely by reason of the location of an office of such bank in an outlying district of such a city or in territory added to such city by the extension of the city's corporate limits, such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain lower reserve balances as above provided in this subsection."

As to the petition of the member banks in Savannah, Georgia, to terminate the designation of that city as a reserve city, Mr. McKee stated that he would like to defer action on the request for thirty or sixty days, with the understanding that it would be considered again on the basis of the situation existing at that time. The other members of the Board were in agreement with this suggestion.

Reference was made to a memorandum dated June 26, 1945, from Mr. Smead in which he called attention to the letter dated May 15, 1945, from Mr. Leach, President of the Federal Reserve Bank of Richmond transmitting a request from the Annapolis Banking and Trust Company, Annapolis, Maryland, for permission to carry reduced reserves in the event the proposed amendment to Regulation D was adopted and recommending that such permission be granted.

Upon motion by Mr. McKee, and by unanimous vote, the following letter to Mr. Leach was approved:

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"The Board of Governors of the Federal Reserve System has considered the request of The Annapolis Banking and Trust Company, Annapolis, Maryland, together with your comments and those of Mr. Milford contained in your letter of May 15 and accompanying correspondence, and, pursuant to the provisions of Section 19 of the Federal Reserve Act and section 2(a) of Regulation D, as amended effective August 1, 1945, grants permission to The Annapolis Banking and Trust Company to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective August 1, 1945.

"Please advise the member bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

There was then presented a memorandum dated June 22, 1945, from Mr. Goldenweiser, reading as follows:

"On March 23 the Board approved a memorandum from Governor Evans recommending that I be authorized

- (1) to take steps to make ready for publication such of the studies on postwar problems, prepared by the research staffs of the Board and the Federal Reserve Banks, as in my judgment were appropriate for publication and
- (2) to arrange, through Mr. Bethea, to investigate the best method for and the probable cost of publication of the studies.

Upon the conclusion of this work the final plan for publication was to be submitted to the Board for action.

"Mr. Ellis, Miss Butler, and I examined all of the studies and agreed that with some revisions the ones shown in the attached list should be published. The list also includes a few additional papers on important topics which were not adequately covered in the original set of studies. In order to effect the necessary revisions, we initiated a series of conferences at which selected members of the System research staff and experts from outside of the System met with the author and discussed changes that should be made. Such conferences have now been held for about half of the papers and have resulted in greatly improved final

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"drafts of the papers. According to our present schedule the remaining conferences should be concluded by the end of the summer.

"In regard to the best method and probable cost of publication, we recommend, after conferring with Mr. Bethea, that the studies be published first in a set of eight pamphlets each containing several studies, as shown in the attached list. Each pamphlet would be issued as soon as the studies in it are completed and, after all have been published, the entire set might be brought together in a bound volume.

"The cost of printing per pamphlet would be about 23 cents, figured on the basis of a run of 5,000 copies of each pamphlet. The total cost for the eight pamphlets (40,000 copies) would be approximately \$9,000. This includes the cost of holding type for the possible publication of a bound volume containing all of the papers. A recommendation concerning the printing of a bound volume will be submitted to the Board at a later date. At this time we recommend that the appropriate classification in the budget of the Division of Research and Statistics be increased by an amount sufficient to cover the cost of the pamphlets.

"We also recommend that single copies of the pamphlets be sold for 25 cents, that groups of ten or more of the same pamphlet in single shipment to one address be sold for 15 cents a copy, and that a set of the eight pamphlets be sold for \$1.25; that free distribution of the pamphlet be restricted to Federal Reserve Banks, Members of Congress, Government officials, teachers of economics, educational institutions, public libraries, foreign central banks and governments, the press, and a selected list of people designated by the Division of Research and Statistics. We will, of course, cooperate with the Division of Administrative Services in determining the initial distribution of each pamphlet as it is received from the printer. Aside from the initial distribution, copies will be sent out only upon request.

"According to the agreement reached with the Reserve Bank Presidents, the studies, if published, will be issued as a Board publication rather than as a System publication. We suggest that each pamphlet and the bound volume contain a preface indicating that the studies should not be taken

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"as representing the position of the Board of Governors and that the statements made are the responsibility of each individual author. A draft of such a preface is attached.

"In view of my proposed trip to Europe and the fact that several of the pamphlets will be completed during my absence, I should appreciate it if the Board would consider this recommendation before my departure next week. During my absence Mr. Ellis and Miss Butler will carry through the remaining conferences and revisions along general lines on which we have agreed."

Approved unanimously, with the understanding that the proposed preface to the pamphlets would be subject to such changes as might be agreed upon by the appropriate members of the staff with the approval of Mr. Evans.

Chairman Eccles stated that Mr. Davis, Director of Economic Stabilization, called on the telephone last week and said that he had discussed further with Mr. Vinson, Director of War Mobilization and Reconversion, the program which had been considered by the Economic Stabilization Board for the purpose of curbing further inflation and speculation, particularly in farm and urban real estate and securities, and that it had been concluded that the procedure that should be followed was to submit the whole program, including the proposed executive order with respect to the restriction of credit in connection with the purchase of real estate, to the Bureau of the Budget for the usual clearance which would give an opportunity to the interested agencies of the Government to express their opinions, after which the program would be submitted to the President. Apparently it was felt, Chairman Eccles said, that such a procedure would be better than an informal

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meeting of Messrs. Vinson, Davis, and himself with the President. He added that his response was that the procedure to be followed was one for Mr. Davis to decide and that it appeared that under the proposed arrangement the Board would have an opportunity to express its views when the usual request was received from the Bureau of the Budget, after which the program would be taken up with the President by Mr. Vinson.

Following the telephone conversation, Chairman Eccles received a letter dated June 20, 1945, from Mr. Davis enclosing a copy of a letter under date of June 19, 1945, addressed by him to Mr. Vinson reading as follows:

"I am forwarding to the President through you the attached memorandum of a program to check inflation of capital values.

"The recommended executive order has been submitted to the Bureau of the Budget for clearance. I enclose a copy herewith.

"I assume that the Bureau of the Budget will collect the comments of other agencies as usual. As you know, the proposed four-point program, as stated in the memorandum to the President, has been thoroughly discussed at several meetings of the Economic Stabilization Board and has the unanimous approval of the members of that Board. I attach for your convenience a list of the members of the Board as now constituted."

With respect to the last paragraph of the letter, Chairman Eccles stated that, while there had been unanimous agreement among the members of the Economic Stabilization Board who had participated in the several discussions of the proposed program at meetings of that Board, that some action should be taken, some of the members shown on

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the list accompanying Mr. Davis' letter had not attended the meetings and there had been no formal vote or unanimous action approving the program, that he (Chairman Eccles) had certain reservations with respect to the program with which the other members of the Board were familiar, that he had felt that because of that situation he was under obligation to reply to Mr. Davis' letter so that there would be no possibility of a misunderstanding of his position, and that for that reason he had sent the following letter to Mr. Davis by messenger yesterday afternoon:

"Enclosed is a copy of a self-explanatory memorandum which I have sent to Judge Vinson today with the request that it be passed along to the President in connection with your proposed program for dealing with the inflation problem as it affects, particularly, homes, farms and stocks. I am also enclosing a separate memorandum to emphasize why the Board feels that if the Executive Order on mortgage credit is to be issued, it should not be accompanied by an announcement exempting new construction. In response to the request I received from the Budget Bureau for my views on the proposed Executive Order, I have also sent copies of both of these memorandums to the Budget Director's office.

"I know how greatly concerned you are to meet this problem effectively, and I think you appreciate my feeling and my reasons for pressing as vigorously as possible for what seems to me an adequate tax approach first and foremost."

At the same time, Chairman Eccles said, he transmitted by messenger a letter to Mr. Vinson in the following form:

"The Office of the Economic Stabilization Director, Mr. Davis, has transmitted to me a copy of his letter of June 21 submitting to the Director of the Budget for clearance in the usual manner the proposed Executive Order dealing with the regulation of real estate credit together with

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"a letter to you of June 19 to which is attached a memorandum of the same date for transmittal to the President.

"I have no question to raise with regard to the form and text of the Executive Order if it is to be issued, but I cannot support the program in the form in which it is submitted in the accompanying memorandum, for standing alone and unexplained I think the President might get an impression which would not be correct. I know that neither you nor Mr. Davis has any such intention and that you are both eager to do what is necessary and most effective on this now unprotected sector of the economic front.

"You and Mr. Davis certainly must be familiar with my viewpoint, and I cannot help but feel very strongly that it should be passed on to the President for whatever value it may have to him in judging whether he should sign the Executive Order after consulting the leaders of Congress and in determining the sort of explanatory public statement that should be given out if the Order is to be issued. I had hoped to have an opportunity to accompany you and Mr. Davis to the White House if it is your intention to have a discussion in person with the President about this matter, but if that course is not to be followed, then at the very least I wish you would present to him on my behalf the enclosed memorandum. In it I have tried to state as briefly as possible the reasons why I am so strongly convinced that effective action turns on whether Congress can be persuaded to take action on the capital gains front. This sector cannot be protected merely by dealing with credit, which is the minor, while cash transactions are the major factor, not only in the stock market but also in the buying of farms and homes. If the credit control itself is to be weakened by exempting new construction, as the memorandum proposes, its unimportance would be decidedly accentuated. In this connection I enclose a memorandum which brings out forcibly the reasons why new construction should not be exempted as Mr. Davis proposes. It is undesirable, incidentally, that the memorandum should give the impression that the Board is willing to perform its statutory duty with respect to margin requirements only on condition that this is part of a Presidential program.

"If the Congress, after having considered the matter, refuses to act in the only way I know of to reach the cash speculative element, then doing something on the credit

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"side may be preferable to doing nothing at all. Certainly the public should not be led to suppose that credit curbs by themselves, unless preceded and fortified by an attack on the root of the problem, will be effective. I do not want to take the responsibility of failing to press so far as I can for the effective curb on cash operations as the first and most important thing. Then, if we are driven back to nothing more than the credit controls, it seems to me very important from the standpoint of the Government and the President that there be no illusions about how limited this approach alone would be--the more so, because of the changed mood of the country and the increasing impatience with existing, let alone new, controls.

"In conclusion, let me emphasize two points: first, that because of its responsibilities in the credit field, the Federal Reserve System is the appropriate agency to administer the Order, and secondly, that if the responsibility for carrying out the Order, in case it is issued, and for issuing regulations is placed upon the Reserve Board we would wholeheartedly and to the best of our ability strive to make its administration as successful as possible."

The memorandum to the President and the second memorandum, referred to in the foregoing letters, were as follows:

Memorandum to the President

"Strongly as I favor an effective program to curb rising prices of capital assets, particularly homes and farms as well as stocks, I can not favor the program in the form in which it is presented in Mr. Davis' memorandum.

"1. It gives first place to what I think is a secondary, subordinate step, namely regulation of mortgage credit. It puts in third place what I regard as by far the most effective weapon covering the entire field of capital assets, that is, tax action which would curb all speculative transactions, whether based on cash or credit.

"2. Private credit is not the principal source of danger. The great threat overhanging the economy arises from the enormous, still growing volume of cash or its equivalent in the possession of the public as a result of war expenditures. Private credit has continued to shrink, on balance, and according to present estimates will contract

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"still more in the next fiscal year, without any further restraints. Public holdings of cash or its equivalent, however, will increase by at least \$33 billions by June 1946.

"3. The following comparison strikingly illustrates how vital it is to act on the tax front if this problem is to be effectively met and how relatively unimportant it is to act on the credit front, except possibly as a supplemental step: Private credit, i.e., the sum total of all private debt in the country, dropped from \$161 billions in 1929, to \$127 billions in 1940, and to \$125 billions at present. On the other hand, cash or its equivalent held by the public—the real inflation potential—increased from \$64 billions in 1929 to \$77 billions in 1940, and has now reached the alarming total of nearly \$250 billions. Accordingly I feel that the program should be aimed first at what is the far greater source of danger.

"4. To put curbs on mortgage credit without first curbing speculative cash as well as credit transactions by an adequate capital gains tax would be entirely ineffective, and effective tax action may even make the proposed Executive Order on mortgage credit unnecessary.

"5. Extension of the holding period from the present 6 months to 3 years, as proposed in the memorandum, would be effective, provided, however, the present 25% rate is increased to 40 or 50% and the tax is also made applicable to the large number of aliens who do not pay any capital gains tax now because of loopholes in the law and regulations but who are making fortunes by speculation in capital assets.

"6. The form and text of the Executive Order as proposed are satisfactory, but I think it would be a mistake to issue the Order until Congress has enacted an effective tax measure or given assurance of favorable action. Similarly I feel that at such time as the Order may be issued exemptions from the Order should not be announced in any accompanying public statement, but that these matters should be left to the discretion, after consultation, of the agency charged with responsibility for carrying out the Order and issuing regulations. I am advised by my technical staff that to exempt new construction, for example, as proposed in the memorandum, would be a serious and perhaps fatal mistake because the effect would be to shift the already huge public demand from existing properties, which would be subject to high cash payments, to the new construction

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"requiring relatively small down payments, thus intensifying inflationary pressures. Neither the general public nor the returning veterans should be thus encouraged to go heavily into debt for homes built in wartime at high costs and with inferior materials.

"7. While I think it would be preferable for the Reserve Board to take action on margin requirements for stocks as a part of a comprehensive program, the Board is prepared to act at any time when it is felt that the situation requires it. The situation in the market at present is such that I think it may be inadvisable to delay action on margins.

"I agree that it is very desirable to discuss both the proposed Executive Order as well as the tax proposal with Congressional leaders, letting them know that a credit control program would be entirely inadequate unless they are willing to take action on the tax front."

Memorandum Relating to the Proposed Exemption of
New Construction

"For the reasons stated below, it is the considered view of the Board of Governors that to exempt new construction from the proposed real-estate credit control, as advocated in the Stabilization Director's memorandum of June 19 to the President, would be a serious and perhaps even fatal mistake.

"This control is relatively weak at best, and to weaken it still further through the proposed exemption would come close to nullifying the whole action. Instead of dampening the over-all demand for homes, as the action would be intended to do, it would merely push a large part of that demand into the new-house sector. If home-buyers must make a large down payment on a house bought from anybody but the builder, but not on one bought from him, they will certainly flock in his direction, with the consequence that the difficulty of 'holding the price-level line' in the new-house sector will be made more difficult than it already is.

"In addition, the Board is advised by its staff that, for two principal reasons, the proposed discrimination might actually destroy the administrative feasibility of the control. In the first place, the clean-cut moral basis of the regulation, essential to the necessary educational

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"program, would be impaired; in view of the large loop-hole, we could no longer say that the objective is to dampen demand and that the regulation is a reasonable means to that end. In the second place, the discrimination would give interested parties additional incentives to evasion and avoidance, thus making more difficult administrative and enforcement problems which are bound to be very difficult at best.

"A counterargument — that to include credits for buying new houses would curtail the supply of new houses — seems to us, in the present circumstances, to be quite unrealistic. For all the new houses that can be built during the next year, considering the natural limitation imposed by shortages of materials and labor, there will be abundant demand, counting both the cash demand and the credit demand. In fact, the staggering size of the demand for new houses is a matter of common knowledge and frequent mention in the press. It is worth noting also that the pressure groups which are advancing the counterargument are at the same time advocating higher prices and also framing their proposal so that it would play into the hands of so-called speculative builders as against people wanting to build houses for their own occupancy.

"In view of the position taken by the Board on this issue, it would be most unfortunate for the President, in his negotiations with members of Congress or any statement to the press, to say (as the memorandum advises) 'new construction will be exempted, at least at the outset.' The most that he should say is something in general terms — e.g., 'Due and careful consideration will be given to the importance of new construction in order that the control shall not be so administered as to restrict new construction.'"

In addition to these communications, Chairman Eccles addressed, and sent by messenger on yesterday afternoon, the following letter to Mr. Bailey, Assistant Director of the Bureau of the Budget:

"Mr. Morrill reported to me your telephone conversation with him in regard to the proposed Executive Order, dealing with mortgage credit, which has been submitted to the Bureau of the Budget for clearance. For your

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"information and guidance, I am enclosing a copy of the memorandum I sent today to Judge Vinson explaining why I cannot support the anti-inflation program, directed specifically to capital assets, in the form in which it is proposed in the memorandum to the President from the Stabilization Director. Also enclosed is a separate memorandum emphasizing why the Board feels that the Executive Order, if it is to be issued, should not be accompanied by an announcement, as proposed by Mr. Davis, exempting new construction. As you will note, I have no objection to the Executive Order textually, but strongly object to its issuance unless Congress has first acted or at least given assurance of favorable action on the tax proposal to deal with the major inflationary dangers on this front. The Executive Order relates only to the credit side of the picture which is the least important. While I have requested Judge Vinson to transmit my memorandum to the President, I would appreciate it if you could see that it goes forward to the White House with such report as you make on the Executive Order."

Chairman Eccles reported that in connection with the sending of this letter he called Mr. Smith, Director of the Bureau of the Budget, to inform him that the letter was being sent and that it would be appreciated if he would read the enclosures and take such steps as might be necessary to insure their being brought to the attention of the President, and that Mr. Smith said he would see that the Board's report was submitted to the President with the proposed executive order.

During the course of the ensuing discussion, Mr. Draper suggested that, in view of the present trend in the security markets and the comments made in the letters to which Chairman Eccles had referred with respect to changes in the margin requirements prescribed by the Board, the Board should consider at as early a date as possible whether

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it should take any action in that field independently of the proposed anti-inflation program.

At this point Messrs. Vest, Goldenweiser, Thomas, Ellis, Smead, Horbett, and Wyatt left the meeting.

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 26, 1945, were approved unanimously.

Memorandum dated June 23, 1945, from Chairman Eccles recommending that the basic salary of Mr. S. R. Carpenter be increased from \$10,000 to \$12,000 per annum, effective as of July 1, 1945, the date on which his promotion from Assistant Secretary to Secretary becomes effective.

Approved unanimously.

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

"The Board of Governors approves payment of salaries to the following officers of the Federal Reserve Bank of New York for the period July 1, 1945 to March 31, 1946, inclusive, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of June 22, 1945:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Loren B. Allen	Assistant Vice President	\$9,000

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<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
William F. Treiber	Assistant Vice President and Secretary	\$11,500
M. Monroe Myers	Assistant Cashier, Buffalo Branch	4,700"

Approved unanimously.

Letter to the "Newburgh State Bank", Newburgh, Indiana, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to Mr. Wallace, Counsel, Federal Reserve Bank of Richmond, reading as follows:

"This is in response to your letter of June 14, 1945, regarding an inquiry which you have received from a manufacturer of pipe organs as to whether or not a pipe organ sold for use in a funeral home or residence is a listed article within the meaning of Regulation W.

"It was found necessary to classify organs according to their type and style, rather than according to the use to which they are put. This decision is reflected in the last sentence of W-18.

"W-18 says that the phrase 'household electric organs' includes electronic instruments and electric action instruments designed for use in homes. Accordingly, a pipe organ (which, by definition, is not electronic) would not be included unless it were electrically actuated. Furthermore, even if the organ referred to in your letter is electrically actuated (as, for example, where it has an electric device at the base of each pipe which actuates the pipe when the

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"appropriate key is pressed), the organ would not be a listed article unless it were suitable for household use. It would not be classified in Item 25 if it failed to meet the specifications for Item 26.

"Pipe organs of the types with which we are familiar would not be considered to be suitable for household use, even though in rare cases they might be installed in private homes. The fact that the manufacturer making this inquiry contemplates sales for installation in funeral homes and residences suggests, however, that this particular model may not be of the elaborate construction and size usually found in pipe organs built for installation in churches, large theatres and similar places. Consequently, it is not possible for us without further facts to give a categorical answer as to whether or not the organ is suitable for household use. You will probably be able to determine this question on the basis of information which you can obtain from the manufacturer, but we should be glad to hear from you further if that does not turn out to be the case."

Approved unanimously.

Letter to Congressman John H. Kerr, House of Representatives,

reading as follows:

"This is in reply to your letter of June 20, 1945, enclosing a letter from Mr. W. G. Clark, Tarboro, North Carolina, relative to an amendment of the Board's Regulation W effective June 11, 1945, which among other things eliminated a provision exempting loans secured by first liens on improved real estate.

"Regulation W, as you know, has been part of the Government's anti-inflation campaign ever since 1941 and it has contained provisions with respect to credit for repairs and improvements to homes from the beginning. In view of the very serious shortage of building materials and labor, one of the purposes of the regulation was to cause people to think twice about going ahead with this kind of work, to suggest that it be postponed as long as possible, and to urge that it be confined to the smallest scope possible.

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"The amendment, which was made up of a number of items, was not intended as a whole either to relax or tighten up the regulation in this field. Its purpose was to simplify the terms and make it more uniform so that some work would not be subject to severe terms while other work of the same kind was treated very liberally. The part of the amendment which eliminates the first lien exemption and which is of special interest to savings and loan associations does no more than to put the consumer-credit transactions of these institutions on more nearly the same basis as those of other institutions operating in the consumer-credit industry.

"As a matter of fact, the amendment does not go very far in putting the savings and loan associations on the same basis, largely for the reason that when a lending institution already has a secured loan outstanding there are certain circumstances in which an additional advance can be made to the borrower without bringing the transaction under the regulation. Also, there is nothing to prevent the lender from postponing payments on a loan originally made to purchase a home, if the payments on that loan plus the payments for the repairs or improvements — on an 18 months' basis — are more than the borrower feels he can meet.

"The trade associations operating in the savings and loan field and the Federal Home Loan Bank System have issued circulars to their members explaining what can be done under the amendment and these should help to clear up the misunderstandings that developed at the time the amendment was adopted. One of these may by this time have come to Senator Clark's attention. If, however, he has any further questions, he may wish to communicate with the Federal Reserve Bank of Richmond, which has responsibility for the administration of Regulation W in Senator Clark's district and which will be very glad to discuss this matter with him.

"We are returning Senator Clark's letter."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morier
Secretary.

Approved:

W. Steeler
Chairman.