

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 22, 1945, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. Draper

Mr. Carpenter, Secretary  
Mr. Connell, General Assistant,  
Office of the Secretary  
Mr. Thurston, Assistant to the  
Chairman

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

Memorandum dated October 18, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the Board approve the appointment of Miss Eleanor Wirth, as a clerk-stenographer in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$2,100 per annum, effective as of the date she enters upon the performance of her duties after having passed the usual physical examination. The memorandum stated that Miss Wirth would become an active member of the Civil Service Retirement System if investigation shows that she has funds in that system; otherwise she would enter the Federal Reserve Retirement System.

Approved unanimously.

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Memorandum dated October 19, 1945, from Mr. Pollard, Assistant Director of the Division of Examination, recommending that the Board approve the appointment of Mrs. Jean L. Satterwhite as a stenographer in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$2,100 per annum, effective as of the date she enters upon the performance of her duties after having passed the usual physical examination. The memorandum stated that Mrs. Satterwhite was a member of the Civil Service Retirement System and would continue in that system.

Approved unanimously.

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

"Reference is made to Mr. Sheehan's letter of October 6, 1945, transmitting a letter from The National City Bank of New York containing advice that the Singapore Branch of The National City Bank has reopened for business.

"There is enclosed the Board's reply and it will be appreciated if you will forward it to The National City Bank. A copy of the reply is also enclosed for your files."

Approved unanimously.

Letter to Mr. J. L. Robertson, Deputy Comptroller of the Currency, reading as follows:

"Recently Mr. L. M. Clark, Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Pollard and Townsend of the Board's staff discussed with you a

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"question that had arisen in connection with the examination of a State member bank in the Atlanta District. As you will recall, the question involved an apparent difference between the general approach of the examiners for the Reserve Bank and that of the national bank examiners in reviewing the bond trading activities of certain banks in that District. In line with your suggestion, this letter has been prepared in order to request the views of your office regarding the matter.

"The latest report of examination of the State member bank indicated that the bank had handled certain transactions in non-exempt securities which the examiners for the Reserve Bank regarded as being in violation of the prohibition in Section 5136 of the Revised Statutes against dealing in securities. During the course of the examination, some members of the staff of the Bond Department of the member bank expressed the opinion that examiners for the Reserve Bank appeared to be more technical than national bank examiners in analyzing bond accounts to determine whether securities were purchased for investment or for resale. In view of these comments, the Reserve Bank deemed it advisable to discuss with Mr. Reed Dolan, Chief National Bank Examiner for the Sixth District, the practice of his examiners in applying the provisions of Section 5136 of the Revised Statutes to the bond accounts of national banks.

"According to our information, Mr. Dolan stated that it was the practice of his examiners to look upon the bond account of a national bank as an investment portfolio without regard to whether the securities were purchased with intent to hold until maturity or for resale upon a favorable market. If the record shows a large number of purchases and sales, the examiner raises the question as to whether the bank is speculating in securities, but it does not appear to be the practice to determine whether securities bought and sold within relatively short intervals fall within the class of exempted securities in Section 5136. If all of the bonds purchased by the bank were eligible, apparently no criticism is made of the bank for dealing in securities even though some of the issues bought for resale may not be of the exempted class. Mr. Clark advised that Mr. Dolan had stated that, since the question had been raised with him, he thought it would be desirable for the Board of Governors to ask the Comptroller's Office for a ruling so that appropriate instructions might be given to his office in order that

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"examiners for the Reserve Bank and the national bank examiners would analyze the activity in the bond accounts of State member banks and national banks on a comparable basis.

"The Board would appreciate receiving any comments you may care to offer relative to the practices followed by your examiners in the Atlanta District, together with any suggestions you may have regarding the procedure which you feel should be followed by examiners in reviewing transactions in non-exempt issues from the standpoint of dealing in securities in contravention of the provisions of Section 5136."

Approved unanimously.

Letter to Captain C. L. Harris, Dayton, Ohio, reading as follows:

"This refers to your letter of October 8, 1945.

"In that letter, you reiterate the contention that there is no justification for the present margin rules in their application to undermargined accounts. What you seem to us to ignore or overlook is the Board's responsibility to prevent the excessive use of credit, as the statute puts it, not only for purchasing securities but also for carrying or trading in securities. A requirement that an undermargined account shall be brought to the new 75 per cent standard would operate to further these objectives, and so does the less stringent rule that the account need be brought up to that standard only in case the customer wishes to take down securities, to draw out money, or to shift from one security to another.

"So far as any customer's tax-paying problem is concerned, it would appear that if he is unable now to borrow the money to pay his taxes the reason is that he has borrowed too much, as judged by considerations of public policy, for the purpose of purchasing or carrying or trading in securities."

Approved unanimously.

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Letter to Mr. Dawes, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Regarding your letter of October 13, 1945, in which you asked to be informed of the Board's decision with respect to the status under Regulation U of a proposed loan to Affiliated Fund, Inc., we informed the Federal Reserve Bank of San Francisco under date of October 11, 1945, that while we had been advised informally on that day that a new plan for the making of such a loan by a syndicate headed by Morgan & Company was under consideration, we had not been furnished with details or with the documents which would be used and that we were therefore not in a position to express an opinion.

"We also heard that a decision had to be reached by the lending banks by Monday, October 15. Since we have not yet received all of the underlying documents, we are still not in a position to express an opinion, but we are still not in a position to express an opinion, but presumably the inquiry which you received from the Indiana National Bank has been disposed of."

Approved unanimously.

Reference was made to the action taken at the meeting of the Board on October 5, 1945, in connection with the Motor City Credit Jewelry Co., Inc., and the order for hearing issued at that time, and it was recommended that the order be amended to change the date of hearing from October 23, to November 9, 1945.

Upon motion by Mr. Ransom, it was voted unanimously to adopt the following amending order, with the understanding that a copy of the order would be sent to the registrant by registered mail today:

"BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
Washington, D. C.

"In the matter of  
Motor City Credit Jewelry Co. Inc.,  
Van Dyke, Michigan

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"Order Resetting Date of Hearing.

"On October 5, 1945, the Board issued an Order for Hearing to determine whether the license of Motor City Credit Jewelry Co., Inc., Van Dyke, Michigan, under Regulation W should be revoked, and set the 23rd day of October 1945, as the date of the Hearing.

"The Board deeming such action necessary and appropriate in the public interest, hereby amends its said Order for Hearing by setting the 9th day of November, 1945, at 10 o'clock A. M. as the time for the Hearing.

"By Order of the Board of Governors of the Federal Reserve System made this 22nd day of October 1945.

(Seal)

(Signed) S. R. Carpenter  
Secretary,  
Board of Governors  
of the  
Federal Reserve System."

Letter to Congressman Brent Spence, Chairman of the Committee on Banking and Currency of the House of Representatives, reading as follows:

"This is in reply to your letter of October 10, 1945, enclosing a letter received by you from Mr. John S. Throckmorton, Caldwell, New Jersey, with respect to a proposal to amend the Federal Reserve Act for the purpose of permitting national banks to make real estate loans to veterans, guaranteed under the Servicemen's Readjustment Act of 1944, where the uninsured portion of the loan does not exceed at least 75 per cent of the appraised value of the property.

"There is now pending before Congress a bill which would seem to accomplish the objective which Mr. Throckmorton has in mind. As you know, the bill H. R. 3749, to amend the Servicemen's Readjustment Act of 1944, passed the House of Representatives on July 18, 1945, and is now pending before the Senate

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"Committee on Finance. Section 501(b) of that bill would expressly authorize all national banks to make loans guaranteed under the provisions of the Servicemen's Readjustment Act of 1944 'without regard to the limitations and restrictions of any other statute or ruling of the Federal Reserve Board'; and this provision would have the effect of permitting national banks to make such loans without regard to any other provisions of law, including the provisions of section 24 of the Federal Reserve Act which limits the amount of real estate loans by national banks to 60 per cent of the appraised value of the property.

"The Board of Governors has approved the objective of permitting national banks to make guaranteed real estate loans to veterans without regard to limitations of the law as to the amount or maturity of the loan. The Board has suggested, however, that, in lieu of the broad and general exemption contained in H. R. 3749, the bill should directly amend section 24 of the Federal Reserve Act so as specifically to exempt real estate loans which are guaranteed in whole or in part under the Servicemen's Readjustment Act from the limitations of that section with respect to the amount which may be loaned on real estate and with respect to the maturity of such loans.

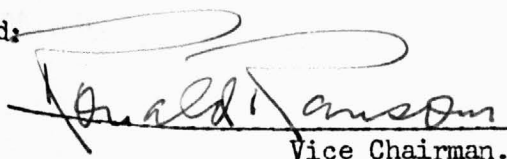
"In accordance with your request, I am returning Mr. Throckmorton's letter to you."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Vice Chairman.