

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 9, 1945, at 11:00 a.m.

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

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

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 November 8, 1945, were approved unanimously.

Telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Caldwell, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment

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without change by the Federal Reserve Banks of St. Louis and San Francisco on November 6, by the Federal Reserve Bank of Atlanta on November 7, by the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on November 8, 1945, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated November 7, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Edward D. Rogers be appointed as a messenger in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,770 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum stated that Mr. Rogers would become a member of the Federal Reserve Retirement System.

Approved unanimously.

Memorandum dated November 8, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Louise E. Leverton, a clerk-stenographer in that Division, and recommending that the resignation be accepted effective as of the close of November 17, 1945, and that a lump sum payment be made for the annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

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Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors has received your letter of September 22, 1945, in which you advise that the Board of Directors of your Bank has elected Mr. Hubert D. Johnson as Counsel of the Federal Reserve Bank of Dallas and, subject to the approval of the Board, has fixed his salary at the rate of \$7,500 per annum for the period beginning with the date upon which he reports for duty and ending May 31, 1946.

"The Board of Governors approves the salary proposed for Mr. Johnson in the new position and will appreciate advice as to the date upon which the appointment becomes effective."

Approved unanimously.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Relet November 5. Board approves appointment Stewart B. Evans as assistant examiner for Federal Reserve Bank of Dallas, effective November 13, 1945."

Approved unanimously.

Letter to the board of directors of the "New Bethlehem Bank," New Bethlehem, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland. The letter also contained the following special comment:

"It appears that the bank may possess certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to act as surety in certain

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"circumstances. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'New Bethlehem Bank,' New Bethlehem, Pennsylvania, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Secretary of Banking for the Commonwealth of Pennsylvania for his information.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations, the savings accounts listed on Page 16 of the report of examination for membership."

Letter to the "Charleroi Savings and Trust Company," Charleroi, Pennsylvania, 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 prepared for the signature of Chairman Eccles to Mr.

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J. Luther Cleveland, President of the Guaranty Trust Company of New York, New York, New York, reading as follows:

"I have your letter of October 23, 1945 with reference to the loan to Affiliated Fund, Inc., and, although it is doubtful whether anything is to be gained by extended correspondence in the matter, we feel that certain points should be stated.

"On each occasion on which the Board expressed any opinion regarding the matter of the application of Regulation U to the loan to Affiliated Fund, Inc., it did so only in response to a specific request in writing either from Affiliated Fund, Inc., or from Guaranty Trust Company. The Board gave its answers to the inquiries submitted only after the most careful and thorough consideration, and the matter was discussed from all angles at meetings of the Board on at least two different occasions. If its opinion had not been requested, the Board probably would have had no occasion to express itself as to any phase of the matter unless and until, in the usual course, the question might have been brought to its attention as a result of bank examinations. It is reasonable to assume that Guaranty Trust Company would not have submitted any of these questions to the Board unless it had felt that there was doubt as to the question whether the Regulation would or would not be applicable under the facts proposed. In these circumstances we do not understand how the fact that the Board answered the inquiries made of it can be made the basis for the statement that it has taken upon itself the function of expressing disapproval of a particular loan or that it has acted in an arbitrary or bureaucratic manner.

"As you know, in July of this year, following a continued upward movement of stock prices for a considerable period accompanied by an increase in trading activity and in stock market credit, the Board raised margin requirements to 75 per cent and put into effect rules preventing customers who had previously taken their position on the basis of 50 per cent margins from doing additional buying except on the new 75 per cent basis. When Affiliated Fund, Inc., requested that the loan to it be exempted from the provisions of the Regulation, the Board was unable to find anything in the facts of the case which would justify treating this institution differently from other institutions

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"or persons who are affected by the change in the Regulation. The Board had expressed the view in 1937 that loans of the kind in question are subject to the provisions of Regulation U and published its opinion to this effect in the Federal Reserve Bulletin for August of that year. Although the Fund apparently had no difficulty in operating under the Regulation until the restrictions on trading in undermargined accounts contained in the July amendments were placed in effect, these amendments of course also prevent thousands of other persons who are subject to Regulations T and U from trading in undermargined accounts. You will agree I am sure that the Regulation should be applied uniformly to large and small alike.

"It is clear that the various proposals made to change the terms of the Guaranty Trust Company loan to Affiliated Fund, Inc., so that it would no longer be subject to the Regulation were changes of form and of detail rather than changes in the fundamental nature of the transaction. The indebtedness still remained, Affiliated Fund, Inc., was still the borrower, and Guaranty Trust Company and the other participating banks still the lenders. In the circumstances, to have said that the changed terms of the loan would have made it a new loan no longer subject to the Regulation would have been to ignore the realities of the case. In addition, although Guaranty Trust Company in its last proposal stated that it would give up custodianship of the securities to some third party satisfactory to the lenders, the lenders would still have required the borrower to agree not to pledge the securities elsewhere and to pledge the securities with the lenders if requested, and the lenders would have had in effect a veto power over changes in the securities. You can see that the protection afforded the lending banks in this situation would not have been greatly different as a practical matter from that involved under the loan as it existed.

"During the oral discussion of the original proposal to exempt the loan to Affiliated Fund, Inc., from the provisions of Regulation U, the question was raised whether certain changes in the terms of the loan and making Guaranty Trust Company custodian rather than pledgee would be sufficient to make the loan not subject to the Regulation, and even the representative of the Guaranty Trust Company indicated that this would not be proper under the Regulation.

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"The Board agrees with this viewpoint. Moreover, since the various proposals made thereafter for changing the terms of the loan appeared to the Board to be made for the purpose of avoiding the Regulation, the Board could not be expected to give a strained interpretation of the language of its Regulation to aid in such a purpose.

"In the letter sent by your institution to the banks which participated with you in the loan to Affiliated Fund, Inc., it was stated that an inquiry was submitted to the Board on the afternoon of October 11 and that you received a reply on October 15 that the Board would need additional information. The Board's telegraphic reply was sent on October 12 and, while that day was a holiday in New York, a letter from your counsel indicates that both he and your institution had the substance of the Board's reply in hand on October 13. Part of the additional information was furnished to the Board on the morning of October 15 with the statement that the banks would need to know the answer by 11 A. M. on that day. Obviously it would not have been possible to study the lengthy legal documents involved and give an answer within an hour or two even if all of the necessary information had been supplied, but some of the information most material to a conclusion on this question was not then furnished and has never been given to the Board.

"This matter has been reviewed in some detail above in order that you may realize that the Board's opinion in each instance was given only after the most careful consideration and only upon specific request from your institution or from Affiliated Fund, Inc. If a similar situation should be presented to the Board with respect to any other institution whether large or small, the Board's reply to a request for its opinion would be the same. We cannot help but feel that the public interest would be better served if in matters of this kind an institution of the size and importance of yours would endeavor to comply broadly with the spirit and intent of the Regulation rather than attempt to find methods by which it might be possible to avoid its provisions.

"I trust that this letter may serve to make clear to you the Board's position in the matter and the fact that it has in no way acted arbitrarily or unfairly toward your institution or any other. In view of the fact that the Guaranty Trust Company has written in some detail

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"on the subject to all of the banks which formerly participated in the loan, the Board will appreciate it if you will see that a copy of this letter is sent to the same banks."

Approved unanimously.

Letter to Congressman Louis Ludlow reading as follows:

"The Office of Surplus Property has referred to us your note of October 3, enclosing a letter from Mr. Samuel Mueller, President, The Furniture Association of Indianapolis, Indiana, setting forth reasons why Regulation W should be continued in a relaxed form.

"We quite agree with the view presented by Mr. Mueller and his Association that the regulation should remain in effect until such time as the threat of inflation, as influenced by the supply and demand situation in consumer goods, is no longer present. The suggestion that the down-payment requirement on certain items be reduced from 33-1/3 per cent to 20 per cent will be duly considered when the time seems to be ripe, that is to say when the supply-demand situation seems to be getting into balance. The suggestion that the exemption from the down-payment requirement be extended to cover items up to \$50 has been given consideration, and will be considered again in due course, but Mr. Mueller's arguments against it seem to us to be very cogent.

"Mr. Mueller's letter is returned herewith."

Approved unanimously.

Letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This is in reply to your letter of October 30, 1945, relating to the application of Regulation W to credit sales of 'floor furnaces'.

"When the subject of the classification of floor furnaces was raised originally, it seemed to us that in view of the method of heating and the price range of these heating units they were more nearly comparable to space heaters than the ordinary type of central heating plant.

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"Of course, both types were subject to the regulation so the difference in credit terms was not as pronounced as it is now.

"It has occurred to us that a floor furnace is usually installed as a permanent fixture attached to the realty so that it might come within the meaning of section 8(a)(2) which was added by Amendment No. 18. In that case the credit would be exempt.

"We have appreciated the fact that Amendment No. 18 would exempt some installations of certain of the articles which remain on the list. It did not seem to us that this situation would cause any great difficulty because the problem appeared to be confined to a few items, such as attic ventilating fans and linoleum. The floor furnace point was one which had not come to our attention. We are inclined to believe that the regulation should remain as it is, although we recognize the fact that some advantage may be taken of section 8(a)(2). The meaning of the language used is, however, well understood because it is parallel with that used by FHA in Title I operations. If we do leave the regulation as it is, the floor furnace question would seem to be solved by exemption. We would be glad to have you comment further on this problem."

Approved unanimously.

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

"In our letter of November 2, 1945, regarding the disposition of certain Fiscal Agency records relating to Liberty Loan and War Savings activities, you were advised that items 1-11 on the list submitted by your Bank in response to our letter R-731 of November 18, 1940, had been offered by the Treasury Department for transfer to the National Archives.

"Advice has now been received from the Treasury that the Archivist of the United States has indicated he is prepared to accept this material and that it may be addressed to the National Archives, attention Division of Treasury Department Archives, Washington 25, D. C. In forwarding the material, it is suggested that reference be made to 'the National Archives Accession Inventory

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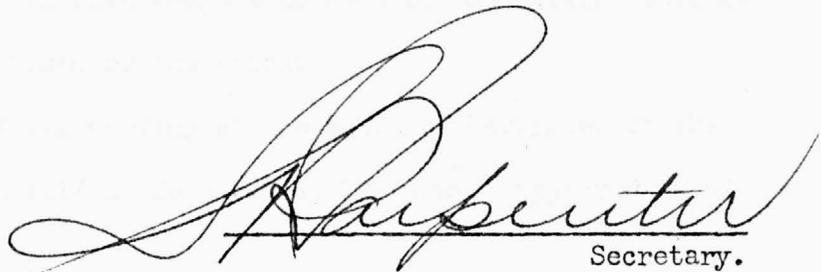
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"No. 445-287." The Treasury has advised informally that the shipping charges involved may be included in one of your current claims for reimbursement of expenses incurred in connection with U. S. Savings Bonds.

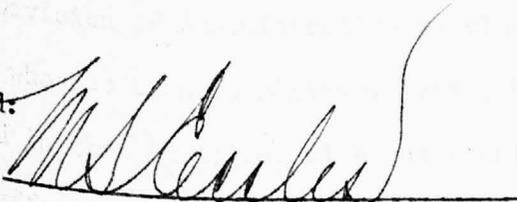
"In order to complete our records, it will be appreciated if you will forward to us a copy of your letter of transmittal to the National Archives."

Approved unanimously, together with a similar letter to Mr. Young, President of the Federal Reserve Bank of Chicago.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.