

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, January 30, 1946, at 2:15 p.m.

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

Mr. Hammond, Assistant 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 hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 29, 1946, were approved unanimously.

Memorandum dated January 25, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Miss Floy Arlone Read be appointed as a stenographer in that Division on a temporary basis for an indefinite period, with salary at the rate of \$2,100 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to a satisfactory check of her references. The memorandum stated that Miss Read was a member of the Civil Service Retirement System, and it was contemplated that she would continue as a member of that System.

Approved unanimously.

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Memorandum dated January 24, 1946, from Mr. Paulger, Director of the Division of Examinations, recommending that the salary of Charles H. Bartz, an Assistant Federal Reserve Examiner, be increased from \$3,970 to \$4,080 per annum, and that his title be changed to Federal Reserve Examiner, both effective February 10, 1946.

Approved unanimously.

Memorandum dated January 29, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Ruth F. Gould, a clerk in that Division, and recommending that the resignation be accepted effective as of the close of business February 15, 1946, 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.

Memorandum dated January 29, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mrs. Rae M. Brooks, a telephone operator in that Division, and recommending that the resignation be accepted effective as of the close of business February 8, 1946, and that a lump sum payment be made for any accrued annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

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Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors approves the reappointments of Messrs. S. V. Wood, John M. Bush, C. O. Follett, and A. L. Miller as members of the Industrial Advisory Committee for the Ninth Federal Reserve District to serve for terms of one year each, beginning March 1, 1946, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Minneapolis, as reported in your letter of January 21, 1946."

Approved unanimously.

Letter to Mr. Sheehan, Chief Examiner of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of January 22, 1946, submitting for the consideration of the Board of Governors the proposal of the Bank of Passaic and Trust Company, Passaic, New Jersey, to increase its investment in bank premises to approximately \$305,000 through expenditure of about \$237,000 for the purpose of acquiring, expanding and improving the property now occupied by the head office of the institution.

"In view of your recommendation, the Board will interpose no objection to the additional investment as proposed, provided the actual investment is kept as close as may be practicable to the estimate submitted and shall not, in any event, bring the total of the trust company's investment in banking premises to an amount in excess of its capital."

Approved unanimously.

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

"Relet January 22. In view of your recommendation Board approves establishment and operation of a branch in Napa, California, by American Trust Company, San Francisco,

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"California, in connection with proposed purchase of assets and assumption of deposit liabilities of Napa Bank of Commerce, with the understanding that counsel for Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the absorption and establish the branch."

Approved unanimously.

Letter to Mr. Strothman, Assistant Counsel of the Federal Reserve Bank of Minneapolis, reading as follows:

"In your letter of January 24, 1946, you refer to the following sentence in the Board's announcement of 100 per cent margin requirements:

'Rules incorporated in both regulations in July of 1945 will now require that whenever securities held as collateral are sold, the proceeds must be used to reduce or retire the customer's indebtedness.'

"You then ask about a case in which it is understood that a loan subject to section 1 of Regulation U has bond collateral with 'maximum loan value ... as determined by the bank in good faith' at least equal to the amount of the loan. In addition, the loan is secured by certain stocks.

"It is understood that you wish to know whether proceeds of the sale of collateral must be applied toward reducing the loan. It is understood further that you wish to know whether the answer would be the same if the sale was of bonds rather than of stocks.

"Section 1 does not prohibit transactions if the maximum loan value equals or exceeds the amount of the loan after the transaction is completed. This was intended to be implied in the Board's announcement, although the exact point is covered only in the text of the Regulation itself.

"With respect to the second part of your question, the answer would be the same whether the collateral sold was stocks or bonds. In other words, until the total maximum loan value, appropriately computed, equals or exceeds the amount of the loan, the proceeds of the sale of any collateral must be applied to reduce the loan."

Approved unanimously.

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Letter to Mr. J. P. Yoder, Vice President and Secretary of the Consumer Banking Institute, Washington, D. C., reading as follows:

"This refers to your letter of January 18 in which you ask for comments on the application of Regulation W to two cases reported by Mr. Harry B. Weaver, President of The Davenport Morris Plan Company, Davenport, Iowa, in his letter to you dated January 16.

"Each of these two examples, as stated by Mr. Weaver, turns upon the provisions of the regulation dealing with extensions of credit to be used to make a down payment on a listed article. Mr. Weaver is correct in his understanding that such an extension of credit is prohibited by the regulation. This restriction is established in section 11(b) and (c), in combination with other pertinent provisions of the regulation.

"If we rightly understand his letter, Mr. Weaver does not question the need for continuation of Regulation W as a part of the Government's anti-inflation program. In his words, he is more concerned with 'the need for special provisions to grant "relief" to the many who now require assistance in the post-war period.' In this connection his examples of the effect of Regulation W refer to a returned serviceman and to a man who had been unemployed for two months as a result of 'reconversion.' It is clear that the provisions of the regulation were not the primary cause of the difficulties of these two individuals to which Mr. Weaver refers, since these difficulties were really the result of the war and its after effects.

"The basic problem in these cases, if they may be viewed as typical, is the problem of readjustment from a war to a peacetime economy. Regulation W is designed to help all individuals, including veterans and the unemployed, to make this readjustment by doing its part in holding back an inflation which would add seriously to the readjustment problems.

"It is very doubtful whether it would be possible to relax the provisions for the benefit of veterans without jeopardizing whatever restraint the regulation has on inflation in general. Veterans and their families will form a very large part of the population. Almost everyone has a serviceman among his relatives and the serviceman could buy for non-veterans. In consequence, any concession for veterans would go a long way, possibly all the way, in

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"nullifying the regulation. Feeling as we do that inflation presents a serious danger to all of us, and particularly to the veterans and former war workers who must depend upon peacetime pay, we cannot believe that it would be well to break down even a part of the program which is just barely holding back the tide of price rises. We think that all in all, the regulation, together with the other measures, will bring about a fairer distribution of the limited supply now available at prices the veterans can afford.

"We have been much concerned about the problems of the veterans, who are inevitably finding difficulties in reestablishing themselves in civilian life and in creating homes. Fundamentally, the solution to the veterans' difficulties, and to those of other people needing to be re-established, can only come with large-scale production. In the meantime, veterans have as much interest as, perhaps more than, the general public in the program to hold back inflationary price rises. Furthermore, they will suffer serious losses if they are encouraged by liberal credit terms to load up with wartime merchandise and saddle themselves with debts they cannot repay. Our conclusion so far has been that veterans as a group would be hurt rather than helped by a special concession under Regulation W.

"We are glad to have this opportunity of expressing our views."

Approved unanimously.

Thereupon the meeting adjourned.

Ray Hammond
Assistant Secretary.

Approved:

W. S. C. C. C.
Chairman.