

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 31, 1946, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
 Mr. Ransom, Vice Chairman  
 Mr. Szymczak (latter part of meeting)  
 Mr. McKee  
 Mr. Draper  
 Mr. Evans

Mr. Carpenter, Secretary  
 Mr. Hammond, Assistant Secretary  
 Mr. Connell, General Assistant,  
 Office of the Secretary  
 Mr. Morrill, Special Adviser  
 Mr. Thurston, Assistant to the Chairman  
 Mr. Parry, Director of the Division  
 of Security Loans  
 Mr. Vest, General Attorney  
 Mr. Brown, Assistant Director of the  
 Division of Security Loans  
 Mr. Horbett, Assistant Director of the  
 Division of Bank Operations  
 Mr. Townsend, Assistant General Attorney  
 Mr. Chase, Attorney

Mr. Ransom stated that in accordance with the suggestion made at the hearing before the Board on January 25, 1946, in the matter of violation of Regulation W, Consumer Credit, by the Motor City Credit Jewelry Company of Van Dyke, Michigan, Mr. Hodge, General Counsel for the Federal Reserve Bank of Chicago acting for the Board in this case, had recommended the following proposed settlement of the case:

1. An order by the Board suspending, for a period of sixty days to be determined by the Board, the registrant's license to extend credit but not affecting any business that it might do on a cash basis. The Board would also issue a statement to the press announcing the disposition of the case.
2. A consent injunction which would enjoin the company and the principals from further violation of the Regulation.

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3. David Fink who owned 45 per cent of the stock would transfer 15 per cent to Nathan Fink; David Fink would resign as president of the registrant; Sol. Fink would be elected president; Sol. and Nathan Fink would be authorized by resolution to manage the affairs of the company; and after the expiration of the 60-day period Nathan Fink would be charged with the responsibility of passing on all credits.

Mr. Ransom stated that he understood that the proposal was acceptable to Mr. Allin, Counsel for the registrant, that Messrs. Parry, Vest, and Townsend concurred in the recommendation, and that he (Mr. Ransom) would recommend that it be accepted by the Board.

Mr. Townsend said that he thought it would be desirable to have the order of the Board issued concurrently with the consent injunction of the court so that the press release issued by the Board would cover all steps taken in disposing of the case.

At the conclusion of a discussion, Mr. Ransom moved that the Board indicate its approval of the above recommendations with the understanding that Messrs. Townsend and Hodge would go to Detroit as soon as possible to work out the details of the matter, and that the order of the Board and its press release would be issued at the same time as the issuance of the consent injunction by the court.

This motion was put by the chair and carried unanimously.

Mr. Szymczak and Mr. Thomas entered the meeting at this point, and Messrs. Parry, Brown, and Chase withdrew.

Mr. McKee stated that while he and Mr. Vest were in Chicago last week they conferred with Messrs. Young, President; Dunn, First Vice President; and Harris, Vice President in charge of the Detroit Branch, of the Federal Reserve Bank of Chicago, with respect to the

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position taken by Mr. Stoddard, President of the Michigan National Bank of Lansing, Michigan, that the Board was without authority under the law to adopt the amendment to Regulation D which was approved, effective August 5, 1945, requiring member banks with branches in a reserve city to maintain the same reserves as banks with head offices located in such cities, and that he proposed to test the authority of the Board in the courts. Mr. McKee also said it appeared that the banks in Grand Rapids would not join in a request that the reserve city designation of Grand Rapids be terminated and that in considering other possible actions it had been suggested that the Board might again give consideration to the termination of the designation as reserve cities of all cities which were not located in a Federal Reserve Bank or Branch city. He added that such action would reduce required reserves of member banks in such cities by less than \$200,000,000, that there no longer appeared to be justification for continuing the present designation of these cities, and that it would be his suggestion that the Board address a letter to the Presidents of the Federal Reserve Banks asking for their views. He made the further comment that, while the Board's counsel felt that the courts would decide in the Board's favor in any action brought to test the Board's legal authority, it was felt that the unfavorable situation that would be created by an adverse decision would not justify the risk involved if there were another course that the Board might take to meet the situation.

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A draft of letter to the Presidents of the Federal Reserve Banks asking for their views was read and after discussion, upon motion by Mr. McKee, was approved unanimously in the following form, it being agreed that the Board should give consideration to the discontinuance of the reserve city designation of the cities referred to regardless of the outcome of the matter affecting the Michigan National Bank:

"It will be recalled that in 1938 at the request of the Board a survey was made as to the advisability of terminating the reserve city status of reserve cities other than those in which Federal Reserve Banks and Branches were located. This survey indicated that the great majority of the member banks in such reserve cities were then opposed to the suggested termination. In the circumstances, and since the whole question of member bank reserve requirements was under general study, it was decided to take no action at that time to terminate the reserve city status of these cities.

"In view, however, of the time which has elapsed and the changes which have occurred in conditions since that survey was made, the Board is now giving favorable consideration to the desirability of terminating the reserve city designation of reserve cities other than those in which an office of a Federal Reserve Bank is located. As you know, member banks located in reserve cities in which there are no Federal Reserve Banks or Branches do not, as a practical matter, have the same services or facilities as member banks in Federal Reserve Bank and Branch cities. This applies, for example, to the check collection facilities and the provision for supplying vault cash requirements. Moreover, some of the reserve cities are quite small from the standpoint both of population and volume of deposits, and in some cases the volume of deposits due to other banks also is small. There is enclosed a table listing all reserve cities other than Federal Reserve Bank and Branch cities, together with their population and the amounts of total deposits and interbank deposits of member banks located therein. You will observe that the cities are situated in seven of the twelve Federal Reserve districts.

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"It will be appreciated if you will give consideration to the desirability of terminating the reserve city status of these cities and will submit to the Board such comments and views as you may have in this connection. Pending consideration by the Board of the replies to this letter, the Board prefers that this matter not be taken up with member banks or others, unless in some particular case you feel it especially important to do so and the matter can be handled informally and on a confidential basis.

"It is realized, of course, as indicated in the Board's letter of November 8, 1945, that a permanent solution of the problem of reserve requirements of member banks is one which probably needs legislation. Pending the working out of legislative proposals and enactment of legislation, however, the Board feels that the termination of the reserve city status of the cities referred to should again be considered. It is hoped, therefore, that we may have your early comments on this proposal."

In connection with the above matter reference was made to the desirability of action by the Board to increase reserve requirements of member banks in New York and Chicago and it was suggested that such action might be taken concurrently with any action to discontinue the reserve city designation of all cities other than Federal Reserve Bank and Branch cities.

It was agreed that Mr. Thomas should have this proposal analyzed for the reason that, irrespective of action by the Board with respect to reserve city designations, it might be found necessary to increase reserve requirements of member banks in central reserve cities as a part of the System's postwar credit policy.

At Mr. Draper's request, there was read a memorandum addressed to the Board by the Personnel Committee under date of January 29, 1946,

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in which it was stated that formal advice had been received from the Federal Reserve Banks of Boston, Cleveland, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco of appointments, subject to approval by the Board, of Presidents and First Vice Presidents of the Federal Reserve Banks for the term of five years beginning March 1, 1946, and that the Personnel Committee recommended that these Banks be advised of the Board's approval of the appointments but that action on salaries of the appointees was being deferred until the Presidents and First Vice Presidents of all the Federal Reserve Banks could be reviewed at the same time. The memorandum also stated that, on the assumption that Mr. W. J. Davis would be appointed First Vice President of the Federal Reserve Bank of Philadelphia, and that the remaining Presidents and First Vice Presidents would be reappointed for the new term, the Personnel Committee recommended that, subject to receipt of advice of such appointments, the Board approve the appointment of Mr. Davis, the reappointment of the President of the Federal Reserve Bank of Philadelphia, and the reappointment of the Presidents and First Vice Presidents of the Federal Reserve Banks of New York, Richmond, Atlanta, and Kansas City, each for a term of five years beginning March 1, 1946.

After discussion, upon motion by Mr. Draper, actions were taken by unanimous vote as follows:

1. The following telegram to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, was approved:

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"Board approves appointment by your Board of Directors of Mr. Laurence F. Whittemore as President and reappointment of Mr. William Willett as First Vice President of the Federal Reserve Bank of Boston, both for 5-year terms commencing March 1, 1946.

"Board also approves payment of salary to Mr. Whittemore at the rate of \$25,000 per annum for the period March 1, 1946 through April 30, 1947, the rate fixed by your directors as reported in your letter of January 28.

"Consideration of salary of First Vice President will be given later."

2. Approval was given to the following appointments, each for a term of five years beginning March 1, 1946, it being understood that the Banks involved would be advised that the Board was deferring action on the salaries of the appointees until the salaries of the Presidents and First Vice Presidents of all of the Federal Reserve Banks could be reviewed at the same time:

<u>Federal Reserve Bank</u>	<u>President</u>	<u>First Vice President</u>
Cleveland	Ray M. Gidney	Wm. H. Fletcher
Chicago	C. S. Young	Charles B. Dunn
St. Louis	Chester C. Davis	F. Guy Hitt
Minneapolis	J. N. Peyton	O. S. Powell
Dallas	R. R. Gilbert	W. D. Gentry
San Francisco	Ira Clerk	C. E. Earhart

3. It was agreed that, upon receipt of advice of appointments for the new term of the Presidents and First Vice Presidents of the Federal Reserve Banks of New York, Philadelphia, Richmond, Atlanta, and Kansas City, as indicated above, they would be approved by the Board with the same advice to the Banks that action on the salaries of the appointees was being deferred until the salaries of the Presidents and First Vice Presidents of all of the Banks could be considered together.

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Under date of January 23, 1946, a letter was received from the Washington office of the National Association for the Advancement of Colored People alleging discrimination against colored people in the employ of the Board with respect to the use of toilet and cafeteria facilities in the Board's building and with respect to advancement to better positions. Following informal discussion by members of the Board, the matter was referred to the Personnel Committee for consideration and at this meeting Mr. Evans, speaking for the Personnel Committee, stated that a similar letter had been received from some of the employees of the Board, and that after considering both communications it was proposed that the Division of Personnel Administration meet with the Board's employees who had presented the matter and go into the situation with the utmost care and that the National Association for the Advancement of Colored People be advised directly or through the Board's own employees that the matter was being taken up with the employees. When the matter was ready for further consideration by the Board, Mr. Evans said, it would be presented to the Board by the Personnel Committee and in the meantime the members of the staff who were interested would be asked to submit any suggestions that they might have in connection with the matter to the Division of Personnel Administration for consideration.

The procedure proposed by the Personnel Committee was approved unanimously.

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Mr. Townsend referred to the discussion at the meeting of the Board on January 28, 1946, of the suit brought against the individual members of the Board in the District Court of the United States for the District of Columbia by the Peoples Bank of Lakewood Village, California, and stated that he had just been served with orders addressed to the members of the Board ordering them, through Mr. Townsend, Assistant General Attorney, or such other officers of the Board as may have custody and control of the papers referred to in the order, to appear before a notary public in the office of Mr. Townsend on February 6, at 10:30 a.m., to testify and give evidence in the suit and to bring with them and produce the records listed in the order. Mr. Townsend explained the legal basis upon which the order was issued and stated that it was proposed, for the reasons outlined at the meeting of the Board on January 28, 1946, to file a motion to dismiss the case and at the same time a motion to postpone the proceedings under the orders referred to above until the court had acted on the order to dismiss, since, if the case were dismissed, there would be no need for the testimony contemplated by the orders.

The members of the Board indicated approval of Mr. Townsend's proceeding in the manner which he had outlined.

At this point Messrs. Vest, Horbett, Townsend, and Thomas withdrew from the meeting.

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The action stated with respect to each of the matters herein-  
after 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 January 30, 1946, were approved unani-  
mously.

Letter to Mr. Turman, Secretary pro tem of the Federal Reserve  
Bank of Atlanta, reading as follows:

"The Board of Governors approves the reappointments  
of Messrs. John E. Sanford, W. W. French, I. C. Milner,  
George Winship, and Luther H. Randall as members of the  
Industrial Advisory Committee for the Sixth Federal Re-  
serve District to serve for terms of one year each, be-  
ginning March 1, 1946, in accordance with the action  
taken by the Board of Directors of the Federal Reserve  
Bank of Atlanta, as reported in your letter of January  
28, 1946."

Approved unanimously.

Letter to Mr. John Burr Williams, Wellesley Hills, Massachusetts,  
reading as follows:

"This is in reply to your letter of January 19, re-  
lating to the status of arbitrage accounts.

"You will have noticed, we assume, that the Board's  
Regulation T recognizes the nature of arbitrage transac-  
tions by defining them and providing that as so defined  
they may be carried in a 'Special Arbitrage Account.'  
Such accounts, although they must conform to certain  
conditions, are not subject to the Board's standard mar-  
gin requirements and would presumably not have to be  
put on a cash basis in case margin accounts, in the gen-  
eral sense, were required to be closed out.

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"For your information, a copy of Regulation T is enclosed. The principal provisions relating to arbitrage transactions are in section 3(a) as amended, section 4(a), and section 4(d). If you should have any further questions on the regulation, you may find it convenient to refer them to the Federal Reserve Bank of Boston which has charge of the administration of Regulation T in your territory."

Approved unanimously.

Letter to Mr. Fred S. McDonald, McConnelsville, Ohio, reading as follows:

"This is in reply to your letter of January 25, relating to the Board's recent action in requiring new purchases of securities to be on a cash basis and to the effect of this requirement on an account which was previously on what might be called an 'overmargined' basis.

"In case securities are sold in such an account, the regulations provide that the proceeds must be devoted to paying off the customer's indebtedness and may not be used to buy securities. This does not seem to us to be unfair, because it merely puts the customer who happens to have an old account on the same basis as a new customer. If the new customer is required to pay cash, so also should the old customer.

"The situation you outline is in principle the same as that involved when the Board issued new rules last July applying to accounts undermargined by the 75 per cent standard. Some of our correspondence since then has indicated, like your own letter, that many a customer regards his 'equity' in a margin account in just the same way that he would regard an equivalent value represented by securities held in safe deposit. This view does not seem to us to be warranted, in view of the provisions of the Securities Exchange Act of 1934, which charges the Board with a responsibility for preventing the excessive use of credit for carrying securities as well as for purchasing securities. It would seem to be especially unwarranted at a time when, as you know, there is such a tremendous volume of cash in the hands of the public as

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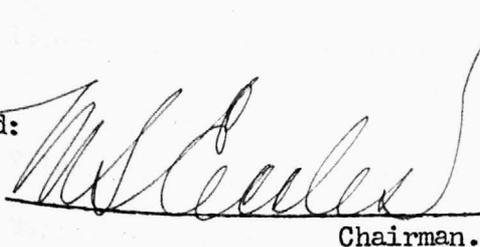
"to bring into question whether it is in the public interest for any credit whatever to be used for either purchasing or carrying securities."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.