

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 19, 1946, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice 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 February 18, 1946, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 18, 1946, were approved unanimously.

Memorandum dated February 11, 1946, from Mr. Carpenter recommending, with the concurrence of Mr. Vest, that, effective February 24, 1946, Miss Mabel Goepfert, a secretary in the Legal Division, be transferred to the Secretary's Office as his secretary and that, effective as of the same date, the salaries of the following employees in the Secretary's Office be increased, as indicated below:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mabel Goepfert	Secretary to Mr. Carpenter	\$2,980	\$3,200
E. Katharine Meiser	Secretary to Mr. Hammond	2,650	2,760
Mary E. Sanders	Clerk-Stenographer	2,232	2,364

Approved unanimously.

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Memorandum dated February 18, 1946, from Mr. Carpenter submitting the resignation of Mrs. Louise F. Thomason, a clerk-stenographer in the Secretary's Office, and recommending that the resignation be accepted as of the close of business February 28, 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 February 18, 1946, from Mr. Paulger, Director of the Division of Examinations, submitting the resignation of Mrs. Jean G. Satterwhite, a stenographer in that Division, and recommending that the resignation be accepted as of the close of business February 28, 1946, and that a lump sum payment be made for the annual leave, if any, remaining to her credit at that time.

The resignation was accepted as recommended.

Letter to the board of directors of the "Bank of Lancaster," Kilmarnock, Virginia, 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 Chicago. The letter also contained the following special comment:

"It appears that the bank possesses certain powers

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"which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds and other obligations. 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. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Lancaster,' Kilmarnock, Virginia, 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 Commissioner of Banking for the Commonwealth of Virginia for his information.

"It has been noted that although the management appears capable of operating the bank satisfactorily, its policies were, until recently, dominated completely by former President Gouldman who is still a director, and some of his practices were regarded as unsafe and unsound. The present management apparently has not had time to demonstrate its ability to act independently of Mr. Gouldman's influence and the supervising examiner for the F. D. I. C. indicated his belief that this domination will continue as long as he is connected with the bank in any capacity. It is understood, however, that the Reserve Bank has given particular attention to this factor and that, upon approval of the application, Vice President Wayne expects to meet with the management and directorate to discuss the matter further with a view to outlining definite policies, procedures and practices for improvement of the situation."

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Letter to Mr. J. B. Herold, Attorney at Law, Shreveport, Louisiana, reading as follows:

"This refers to your letter to Chairman Eccles which was dated February 8, 1946, and addressed to New York City.

"You state that you have a client who desires to form a corporation for the purpose of loaning money on listed stocks as security, and you ask whether this can be legally done.

"At present, the Board has two regulations on the subject, and we are enclosing a copy of each. Regulation T applies to extensions of credit by members of national securities exchanges and brokers or dealers who transact a business in securities through the medium of any such member. Regulation U applies to banks. As a general proposition subject to certain limited exceptions, both regulations now prohibit the persons subject to them from extending any new credit on listed stocks for the purpose of purchasing or carrying such stocks.

"A corporation or other person that is not a member, broker, dealer, or bank, is not subject to either of these regulations.

"You will note, however, that under section 7(d) of the Securities Exchange Act of 1934, which appears on page 7 of Regulation U, the Board is authorized to prescribe a similar regulation which could apply to any one. You will, therefore, recognize that even though there is no such regulation at present, the Board might prescribe such an additional regulation at any time.

"Any substantial development of loans on stocks by persons not subject to Regulation T or U would naturally be an important consideration that might lead to the issuance of such an additional regulation."

Approved unanimously.

Letter to Mr. Alvin L. Bear, Los Angeles, California, reading as follows:

"This is in reply to your letter of February 6, 1946, asking about the purposes of the Securities Exchange Act of 1934 as related to the Board's authority over margin

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"requirements and particularly the power to require existing margin accounts to be closed out.

"The general necessity for regulation is referred to in section 2(4) which reads as follows:

'(4) National emergencies, which produce widespread unemployment and the dislocation of trade, transportation, and industry, and which burden interstate commerce and adversely affect the general welfare, are precipitated, intensified, and prolonged by manipulation and sudden and unreasonable fluctuations of security prices and by excessive speculation on such exchanges and markets, and to meet such emergencies the Federal Government is put to such great expense as to burden the national credit.'

"Specific provision for margin regulation is provided in section 7. Pertinent excerpts from this section are as follows:

'(a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Federal Reserve Board shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. * * *'

'(b) Notwithstanding the provisions of subsection (a) of this section, the Federal Reserve Board, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.'

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"You will note that these excerpts refer to both the amount of credit that may be extended and the amount of credit that may be maintained. Since many varied economic matters are involved, the standard to be followed by the Board is necessarily broad and will lead to the prescribing of different requirements as to the extension of credit or, if appropriate, as to its maintenance, in varying economic circumstances.

"We hope that this information will be of assistance to you. We realize that it may not be as exact as you would prefer, but it is as complete as Congress found it possible to prescribe, considering the circumstances and the complex economic subject matter involved."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks reading as follows:

"In order to assist the Czechoslovakian authorities, the State Department requests that the following statement be handled as a press release by the Federal Reserve Banks both in their head office cities and in branch cities. The statement was released by the State Department in Washington at noon today. Your cooperation will be appreciated. The text of the statement follows:

'The Department of State has been informed that the Czechoslovak Government has extended until March 10, 1946 the deadline for the deposit of Czechoslovak currency (denominations of 20 crowns or less) and registration of Czechoslovak bank deposits and life insurance policies held by residents of the United States, with Czechoslovak Consular offices in the United States. The deadline previously announced was December 31, 1945.

'The deadline for deposit and registration of Czechoslovak securities held by residents of the United States, previously fixed at February 28, 1946, has been extended to April 30, 1946. The official forms required to be used in the registration of the securities together with directions for their use may be obtained from Czechoslovak Consular offices located in New York City, Chicago, Cleveland, Pittsburgh, San Francisco, and Washington, D. C.'"

Approved unanimously.

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10:30 a.m.

Thereupon the meeting adjourned.

[Handwritten Signature]
Secretary.

Approved:

[Handwritten Signature]
Chairman.