

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 14, 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. 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 March 13, 1946, were approved unanimously.

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

"Some questions have been raised as to the proper interpretation of, and the procedure necessary under the provisions of the Board's letter of February 11, 1936 (X-9488), regarding approval of leaves of absence with pay in excess of 30 days granted officers and employees on account of illness.

"The Board has taken the occasion to review the present arrangements and, as a step towards simplification, cancels the following letters regarding extended leave of absence on account of sickness and annual leave in excess of regular vacation periods, which are included as items 9120 - 9124, inclusive, in the Federal Reserve Loose-Leaf Service and which are superseded by this letter: June 14, 1928 (X-6069); December 5, 1932 (X-7303); February 11, 1936 (X-9488); April 16, 1936 (X-9550); and June 15, 1937 (S-3).

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"Inasmuch as the granting of extended leaves of absence with pay is controlled by the boards of directors or executive committees of the Banks, either through establishment of general policies or action in specific cases, the Board is cancelling its previous requirements with respect to reports or approvals of extended leaves of absence with pay. It is expected that the directors will continue to maintain appropriate control over the granting of extended leaves of absence. The cancellation of the previous requirements is not intended to affect in any way such procedures as the directors may consider desirable with respect to reports or approvals of leaves of absence.

"It is requested that the records of extended leaves of absence with pay reflect the authorization upon which the leave has been granted. The Board's examiners will continue, as in the past, to review cases of extended leave granted on account of sickness or for other reasons and to take up with the proper officers at the Reserve Banks any particular case about which there may be a question.

"One of the letters cancelled (X-9550) stated that the Board offered no objection to employees of a Reserve Bank who have been accepted for the courses offered by the Graduate School of Banking at Rutgers University being granted sufficient leave in addition to their regular annual leave to enable them to attend the School, or to employees who have been elected as delegates being granted such additional leave as may be necessary to enable them to attend the annual conference of the American Institute of Banking. The cancellation of the letter does not reflect any change of position and the Board continues in the belief that leave in addition to regular leave may be properly granted for such purposes."

Approved unanimously.

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

"Consideration has recently been given to a question regarding the purchase of certain notes by a bank under Regulation U.

"In the case presented, a manufacturing corporation had made loans to certain of its officers in 1944. The loans were secured by the corporation's stock and were for the purpose of purchasing such stock from the corporation. The stock was registered on a national securities exchange, and if the loans

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"had been made by a bank in 1944 they would have been exempt from Regulation U under section 2(e) as then effective. Subsequent to January 21, 1946, a bank was requested by the corporation to purchase the notes representing the loan so that the corporation could obtain funds for ordinary corporate operations, and it asked whether this is permitted under the regulation. The facts showed that there was no connection between the original loan and the later proposal that the bank purchase the notes.

"It was obvious that the notes in question represented loans of the type described in section 1 of Regulation U - i.e., loans which a bank is at present not permitted to 'make'. It was also obvious that the regulation would be practically meaningless if a bank could avoid it merely by going through the form of purchasing notes instead of the usual procedure of 'making' a loan.

"On the other hand, it was evident that here the bank would not be creating a loan described in section 1. It would be purchasing one that had been made independently at a considerable time in the past, and the facts made it clear that the purchase was in no sense a disguise for the making of a prohibited loan. In other words, the bank would not be making a loan for the specified purpose, and this was true not only in a literal and technical sense but also according to a much more general meaning. In the circumstances, the Board is of the opinion that the purchase is permitted under the regulation.

"The facts leading to this conclusion were (1) that there was no agreement or understanding on the part of the bank, at the time the loans were originally made, that the bank would at some future time take them over; (2) that the proposed transaction was an actual purchase and not a mere lending operation set up for purposes of subterfuge as the purchase of a loan; (3) that the corporation offering the notes was a manufacturing concern and not a corporation engaged in the business of making loans of the specified type or engaged, like an investment company, in the business of purchasing or carrying registered securities; and (4) that the corporation would use the funds obtained by the transaction for manufacturing purposes and not for purchasing or carrying securities.

"Notwithstanding the opinion that the bank would not be prohibited by Regulation U from purchasing notes, it is pointed out that, because they in fact represent loans of the type referred to in section 1, they would become subject to the regulation, after they come into possession of the bank.

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"For example, they must be included in determining the entire indebtedness of the borrower subject to the regulation, for the purposes of the second and third paragraphs of section 1. In addition, the provisions of section 3(d) regarding the renewal or extension of maturity of a loan apply.

"Even though this interpretation relates to a special set of facts that limits its application, the Board recognizes that it may nevertheless be subject to abuse. The Board and the Federal Reserve Banks will accordingly be on the alert to observe any substantial development of such abuse in order that appropriate amendments to prevent it may be adopted if the need should become evident."

Approved unanimously.

Letter to Mr. Fletcher, First Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of March 6, 1946, regarding Regulation U.

"You present a case in which a bank has outstanding a loan that was made under Regulation U before the adoption of 100 per cent margin requirements. The bank recognizes that it cannot permit withdrawals of the collateral, which is considerably more than it would ordinarily require for its own protection.

"The bank wishes to make a loan to the same borrower for a purpose other than purchasing or carrying registered stocks--for example, to build a house. It asks whether it may make this nonpurpose loan on the security of the extra collateral impounded behind the regulated loan. Since the facts indicate that the borrower is not a broker or dealer, the provisions of section 3(n) of the Regulation do not apply.

"At present the Regulation permits the bank to make the nonpurpose loan on the security of the collateral behind the regulated loan. It is recognized that this is, to a degree, a weakness in the Regulation, and the Board would naturally be concerned at any substantial development of such loans. It will be appreciated, therefore, if you will keep the Board advised as to any untoward developments in this direction that may indicate the need for amending the Regulation."

Approved unanimously.

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Letter to Mr. Willett, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of March 8, 1946, submitting the request of the Hadley Falls Trust Company, Holyoke, Massachusetts, for approval of an additional investment not to exceed \$75,000 in bank premises for the purpose of providing quarters for the proposed branch in Chicopee Falls, Massachusetts, establishment of which was approved by the Board of Governors January 5, 1946.

"In view of your recommendation and the information submitted, the Board of Governors approves the additional investment of not to exceed \$75,000 in banking premises by the Hadley Falls Trust Company, Holyoke, Massachusetts, substantially in accordance with the plan as submitted."

Approved unanimously.

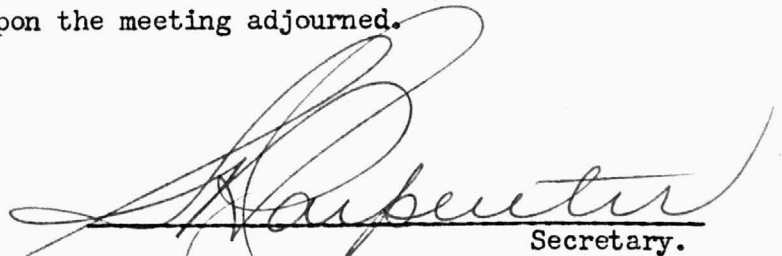
Letter to Mr. L. W. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of February 16, 1946, and enclosures, with respect to the Central Corporation of Banking Companies, Budapest, Hungary, opening an account in its name on your books.


"The Board is agreeable to your proceeding in the manner indicated in your letter and enclosures."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.