

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

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Smead, Director of the Division
of Bank Operations
Mr. Paulger, Director of the Division
of Examinations
Mr. Thomas, Director of the Division
of Research and Statistics
Mr. Vest, General Counsel
Mr. Parry, Director of the Division
of Security Loans
Mr. Townsend, Assistant General Counsel
Mr. Brown, Assistant Director of the
Division of Security Loans

Reference was made to a letter dated April 22, 1946, from Mr. Prochnow, Acting Secretary of the Federal Advisory Council, stating that the next meeting of the Council would be held in Washington on May 19-20, 1946, and asking for a list of the topics which the Board wishes the Council to discuss at that time.

The suggestion was made that, in view of the discussion at the meeting of the Board with the members of the executive committee of the Council on April 24, 1946, the Council might be asked to suggest a formula under which reserve cities would be designated by the Board.

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Mr. Vardaman stated that he had asked that the question of the designation of reserve cities be placed on the agenda for consideration at this meeting of the Board because many of the banks which would be affected by the termination of the designation of all reserve cities other than those in which Federal Reserve Banks and branches were located, apparently were greatly concerned about the matter and it had occurred to him that it might be advisable to make it known that the Board was not going to act until it had carefully considered the problem and a logical formula had been worked out.

The problem was discussed in the light of the more recent suggestions that had been made regarding possible changes in the law with respect to member bank reserves and the basis upon which the designation of reserve cities might be determined without a change in the law, and there was agreement that it would be desirable to request the Federal Advisory Council for its suggestions as to a possible formula for the designation of reserve cities and to request the Presidents of the Federal Reserve Banks to place the matter on the agenda for the meeting of the Presidents' Conference in June of this year, it being understood that no action would be taken by the Board until it had considered carefully the comments of the two groups.

Mr. Vardaman suggested that it would be well also if a committee could be appointed by the Board to make an independent study

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of possible formulas so that when the views of the Federal Advisory Council and the Presidents were received the Board would be in a position to reach a decision as to the action that it should take.

At the conclusion of the discussion, upon motion by Mr. Evans, it was agreed unanimously that the staff would prepare, for consideration by the Board, drafts of letters to the Federal Advisory Council and the Chairman of the Presidents' Conference along the lines suggested; that Messrs. Szymczak and Vardaman, working in collaboration with Messrs. Smead, Vest, and Thomas, of the Board's staff, would undertake a study of possible formulas that might be adopted by the Board; that the staff would bring to the attention of the members of the Board the solutions to this problem that had been proposed in the recent past; and that when the letters to the Federal Advisory Council and the Chairman of the Presidents' Conference referred to above were mailed, President Young of the Federal Reserve Bank of Chicago would be requested informally to advise Mr. Stoddard, President of the Michigan National Bank, Lansing, Michigan, that the letters were being sent.

There was then presented the following letter to the Presidents of all of the Federal Reserve Banks. The letter had been circulated among the members of the Board for consideration at this meeting and all of the members present indicated that they were willing to approve it.

Thereupon, upon motion by Mr. Ransom, the letter and its enclosure were approved unanimously as follows:

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"In the light of experience and especially in view of the probability that enforcement of Regulation W will become more difficult as time goes on, the Board has considered it necessary to reexamine the enforcement program for the purpose of determining the respects in which it should be amplified and strengthened. Suggestions made by the representatives of the Federal Reserve Banks at the System Conference held April 8-10 have contributed materially to the development of a revised program of which an outline is enclosed. The Board recognizes that this program will require larger staffs at many of the Federal Reserve Banks and is prepared to approve whatever additional cost is entailed.

"The Board feels that enforcement activities in the various Federal Reserve Districts should be reasonably uniform and to this end not only has established a minimum standard which is referred to in section II-B of the enclosure but also expects to have several regional conferences arranged at which representatives of the Federal Reserve Banks will meet to discuss detailed procedure.

"As mentioned in section I-B-2 of the enclosure, the Board will maintain contact with the head offices of the cooperating Federal supervisory agencies and expects the Federal Reserve Banks to maintain contact with the regional offices of those agencies, assisting them in any way possible. In addition, the Board is very much interested in having each Federal Reserve Bank work closely with the State supervisory agencies to provide effective coverage of financial institutions which are subject to examination by State authorities only. With respect to states which are partly in one district and partly in another, it would probably be desirable for both Federal Reserve Banks to work together in approaching the State supervisory agencies.

"This restatement of the enforcement program is not intended to suggest that less emphasis should be given to the other aspects of the administrative activities of the Federal Reserve Banks in relation to Regulation W. In fact the situation appears to call for an enlargement of the educational activities, including those with trade associations, and for close attention to the actual working of the various provisions of the regulation so that the Board can be kept currently advised.

"Another System Conference is contemplated for some time later this year at which, among other matters, developments in the enforcement program will be reviewed.

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"This letter will supersede the Board's letter of May 28, 1942 (S-496)."

Enclosure referred to:

"OUTLINE OF ENFORCEMENT PROGRAM UNDER REGULATION W

"I. Investigation Procedure

"A. Vendors and Sales Finance Companies:

- "1. Investigations of vendors and sales finance companies will be conducted by representatives of the Federal Reserve Banks except in the states where sales finance companies are subject to State supervision and the Federal Reserve Banks have assured themselves that the State authorities, in connection with examinations or otherwise, are making appropriate investigations of these institutions.
- "2. As a general rule, each investigation will include a survey of procedures affecting Regulation W compliance, a spot-check of a representative number of recent transactions, and an examination of indexes of general conformity -- such as collection ratios and records of delinquencies.
- "3. Each investigation will be covered by a written report in such form as will enable the Federal Reserve Bank to obtain information needed for the required summary report to the Board and will provide sufficient information for subsequent use in case of continued violation. Special attention will be given to reports of reinvestigations in which disciplinary action may subsequently be required.
- "4. Each Federal Reserve Bank will be responsible for the investigation of branches in its district of Registrants with head offices elsewhere, but the Federal Reserve Bank where the head office is located will be informed of any developments which may lead to disciplinary action.

"B. Lenders:

- "1. It is the general plan of the enforcement program that investigations of the various classes of lenders will be conducted by the following agencies:

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- "a. National banks - National bank examiners
 - "b. State member banks* - Federal Reserve
Bank examiners
 - "c. Non-member insured banks* - F.D.I.C.
bank examiners
 - "d. Non-insured banks* - State bank examiners
 - "e. Industrial loan companies - State super-
visors
 - "f. State-licensed small loan companies -
State supervisors
 - "g. Federal credit unions - F.D.I.C. examiners
 - "h. Other credit unions - State supervisors
 - "i. Federal savings and loan associations -
F.H.L.B. examiners
 - "j. Insured savings and loan associations -
State supervisors
 - "k. Non-insured savings and loan associations -
State supervisors
 - "l. Federal land banks and associated institu-
tions - FCA examiners
 - "m. Lenders not specified above - Federal Re-
serve Bank investigators
- "2. Assurances of cooperation have been received by the Board from the following agencies at one time or another in the past and the matter of obtaining further assurances is being followed up:
- "a. Comptroller of the Currency
 - "b. Federal Deposit Insurance Corporation
 - "c. Federal Home Loan Bank Commissioner
 - "d. Farm Credit Administration
 - "e. National Association of Supervisors of
State Banks
 - "f. National Conference of State Small Loan
Supervisors
 - "g. The Department of Justice
- "The Board will maintain contact with the head offices of the Federal agencies named but the Federal Reserve Banks will maintain contact with the local offices of these Federal agencies in their districts to assure continuing cooperation in the program. The Federal Reserve Banks will also maintain contact with the State agencies referred to in section I-B-I to assure continuing cooperation. It will be the responsibility

*Including industrial banks

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"of the Federal Reserve Banks to work out with the State authorities the means of handling such State institutions as the State authorities do not properly cover.

- "3. Investigations of lenders will be conducted by the various agencies in the course of their regular examinations of the subject lending institutions according to such procedure as they deem appropriate. It is expected that the procedure will include a discussion with lending officers to ascertain their familiarity with the regulation and a spot-check of loans.

"II. Scope of Program

"A. Referring to such credit grantors as are investigated in connection with the regular examinations of supervisory agencies, it is expected that under the usual schedule all these will be covered at least once a year.

"B. For such credit grantors as are investigated by the Federal Reserve Banks' consumer credit investigators, each Federal Reserve Bank will maintain a program which will result in a number of investigations and reinvestigations during the course of a year equal in the aggregate to at least 10 per cent of the number of its individually licensed Registrants. Some of the Federal Reserve Banks will need to conduct a larger number of investigations because of the special nature of the problems in their districts. While the program does not require an equal amount of enforcement activity in each month or quarter, it is expected that the field work will be reasonably continuous and will not be handicapped by the use of the regular investigators for other work over any extended period. The investigations called for by the minimum standard will be of the type referred to in section I-A-2.

"C. The distribution of the investigations among the various classes of Registrants and by geographic areas will be determined by each Federal Reserve Bank in such fashion as to obtain the most effective coverage, considering that in certain classes and areas the problem may be more serious than in others.

"III. Treatment of Violators

"A. When discovered by a Federal Reserve Bank:

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- "1. Inadvertent violators:
 - "a. The Federal Reserve Bank, either through the investigator in the field or through communication from the Bank's office, will take appropriate steps to bring about, if practicable under all the circumstances, a correction of any contract found to have violated the regulation.
 - "b. The Federal Reserve Bank will undertake to obtain, either orally or in writing as may appear appropriate in the particular case, assurance of future compliance.
 - "c. Reinvestigations will be scheduled where warranted by the circumstances.
- "2. Apparently willful violators:
 - "a. When a violator is first classified as apparently willful, the Federal Reserve Bank will ordinarily hold a disciplinary conference with the violator. The conference will ordinarily be at one of the offices of the Federal Reserve Bank and be attended by counsel for the Federal Reserve Bank as well as counsel for Registrant if he wishes to be so represented. A reinvestigation will be scheduled for an early date.
 - "b. If on any reinvestigation after such a disciplinary conference further violations are discovered, the Federal Reserve Bank will make the determination as to whether to hold an additional disciplinary conference or refer the case to the Board for action.
 - "c. If the case is referred to the Board for action, the Federal Reserve Bank will prepare and send to the Board a full report of the history of the case with copies of all investigation reports and supporting documents. The Federal Reserve Bank will ordinarily make a recommendation to the Board as to the action to be taken.
 - "d. In every case in which a second disciplinary conference with the Registrant has been held but the case has not been referred to the Board for action, the Federal Reserve

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"Bank will send to the Board, as soon as possible after the conclusion of the conference, a full report of the history of the case with copies of all investigation reports and supporting documents.

- "e. If the Registrant has offices in more than one Federal Reserve District, the Federal Reserve Bank where the head office is located will be kept informed and will be in charge of any disciplinary action.
- "B. When discovered by a cooperating supervisory agency:
- "1. Inadvertent violators:
 - "a. The cooperating agency will be expected to take steps along the lines to be taken in similar cases by the Federal Reserve Banks under section III-A-I.
 - "2. Apparently willful violators:
 - "a. The cooperating agency will be expected to report the facts in the case to the Federal Reserve Bank of the district in which the violation occurred. For national banks, the case will be brought to the attention of the Federal Reserve Bank by the copy of the examination report in which the violation will be noted.
 - "b. The Federal Reserve Bank will determine what steps should be taken in the particular case along the lines to be taken in similar cases where the violation was discovered by the Federal Reserve Bank, as outlined in section III-A-2.
- "C. When discovered by the Department of Justice:
- "1. Apparent violations will be reported to the Federal Reserve Bank in the district where the violation occurs.
 - "2. The Federal Reserve Bank will handle the case along the lines taken in similar cases when discovered by the Federal Reserve Bank."

At this point, Messrs. Smead, Paulger, Thomas, Vest, Parry, Townsend, and Brown, withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

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

Memorandum from Mr. Paulger, Director of the Division of Examinations, dated April 29, 1946, submitting the resignation of Mr. Leroy Bengé, Assistant Federal Reserve Examiner assigned to the road force, and recommending that the same be accepted, effective at the close of business May 7, 1946, and that a lump sum payment be made to him for accrued annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

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

"In view of the circumstances described in your letter of April 25, 1946, the Board of Governors approves the continuation of the payment of salary to Mr. Ralph E. Baumann as a supervisor in the Inter-District Accounts Section, Accounting Division, Accounting Department, at the rate of \$4,740 per annum, for a further period of six months beginning May 1, 1946."

Approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Board approves employment of J. K. Gerdel to assist in connection with a revision of the personnel classification plan in accordance with program outlined

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"in your letter of April 27 and Weigel's letter of April 22."

Approved unanimously.

Memorandum dated April 19, 1946, from the Division of Personnel Administration stating that employees' salary lists received from the Federal Reserve Banks as of January 1, 1946, had been examined and it had been determined that, with the exceptions listed below all employees were receiving compensation within the maximums provided in the personnel classification plans of the respective Banks for the positions occupied, with allowance for the general 15 per cent margin or within the authority specifically granted by the Board, and recommending that the Federal Reserve Banks be advised that the salaries shown in the respective lists submitted had been noted without objection and that the Board approves the payment of the five salaries listed below which were in excess of the maximums of the personnel classification plans plus the 15 per cent margin:

<u>Name</u>	<u>Position</u>	<u>Maximum under personnel clas- sification plan plus 15 per cent authorization</u>	<u>Salary</u>	<u>Excess</u>
<u>Federal Reserve Bank of Cleveland</u>				
Miss Sally Robbins	Secretary to Junior Officer	\$2,778	\$2,875	\$97
Miss Anna Wolf	Multigraph Operator	2,222	2,236	14
Harold S. Dennerle	Forms and In- ventory Clerk	3,174	3,450	276
<u>Federal Reserve Bank of Kansas City</u>				
<u>Oklahoma City Branch</u>				
R. J. McMullen	Engineer and Build- ing Supervisor	2,939	3,000	61
<u>Federal Reserve Bank of Dallas</u>				
J. W. Cowan	Vault Custodian	2,277	2,298	21

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Approved unanimously.

Letter to "First State Bank of Corpus Christi", Corpus Christi, Texas, 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 to Mr. Whittemore, President of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of April 15, 1946, and Mr. Willett's telephone call of April 26. In the third paragraph of your letter it is stated that since the date of the Board's letter of September 14, 1945 (S-871), you have not had any present intention to commence the construction of the addition to your bank building and also that you do not understand that the intention of the Board as expressed in this letter was to prohibit carrying on work necessary to prepare the land adjoining the Bank's building so as to permit actual construction of the extension at the earliest date deemed advisable. You requested to be advised if you were incorrect in your understanding of the meaning of the Board's letter S-871.

"Your letter also describes the unsatisfactory working conditions in the building at 6-12 Pearl Street and points out that if it is not vacated at the earliest possible moment further expenditures probably should be made in order to improve its fire escape facilities.

"This is to advise you that you are not incorrect in your understanding of the Board's letter of September 14, 1945 (S-871), and that the Board will interpose no objection to your letting of the contract to raze the building at 6-12 Pearl Street."

Approved unanimously.

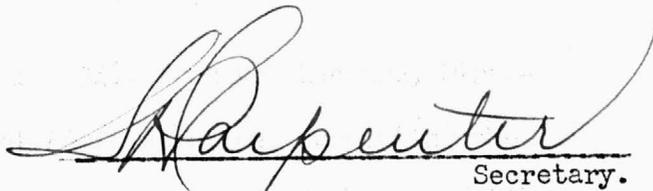
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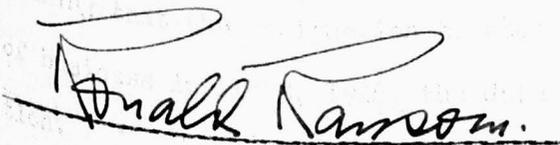
Memorandum dated April 25, 1946, from Mr. Evans recommending, in accordance with the action taken at the meeting of the Board on November 16, 1945, that Mr. Thomas, Director of the Division of Research and Statistics, Mr. Hammond, Assistant Secretary, and Mr. Triffin, Economist in the Division of Research and Statistics, attend the conference of central bank representatives of the Western Hemisphere which had been scheduled to be held in Mexico City in August of this year, and that the Federal Reserve Banks of New York and Dallas each be asked to send one representative.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.