

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 22, 1946, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. Draper  
Mr. Evans

Mr. Carpenter, Secretary  
Mr. Thurston, Assistant to the Chairman

As stated in the minutes of the meeting on May 8, 1946, Mr. Vardaman was absent on official business.

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 Tuesday, May 21, 1946, were approved unanimously.

Memorandum dated May 17, 1946, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that Miss Anne Malia, a stenographer in the Legal Division, be transferred to Mr. Morrill's office to act for an indefinite period as his secretary, and that her salary be increased from \$2,320 to \$2,650 per annum, effective at the beginning of the next pay roll period.

Approved unanimously, effective June 2, 1946.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of May 15, 1946, the Board approves the designation of Edward C. Schaback as a special assistant examiner for the Federal Reserve Bank of St. Louis."

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Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to Mr. Dierck's letter of May 17, 1946, submitting certified copies of resolutions adopted by the board of directors of the Frankenmuth State Bank, Frankenmuth, Michigan, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice usually required.

"In view of your recommendation, the Board of Governors waives the usual requirement of six months' notice, as requested. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Frankenmuth State Bank, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon. It is noted that counsel for the Reserve Bank is of the opinion that the documents submitted pursuant to Section 10 of the Board's Regulation H comply with the requirements of that section.

"Please advise the Board of Governors when cancellation is effected and refund is made. The Certificate of Membership issued to the bank should also be obtained, if possible, and forwarded to the Board. State banking authorities should be advised promptly when the bank's withdrawal from membership has been effected and given the reasons therefor, if desired."

Approved unanimously.

Letters to "Peoples Bank of Hanover", Hanover, Pennsylvania, "Peoples Bank", Science Hill, Kentucky, "The Bridgeville Trust Company", Bridgeville, Pennsylvania, "Citizens State Bank", Broken Bow, Oklahoma, respectively, 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.

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"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to Mr. L. W. Sutherland, Chairman of the Board, Sutherland Paper Company, Kalamazoo 13-D, Michigan, reading as follows:

"This is in reply to your letter of May 2, in which you ask if Regulation U could be amended in effect to permit bank loans for the purpose of exercising rights to purchase listed stocks and secured by listed stocks as collateral.

"You are right in your understanding that the terms of Regulation U now prohibit banks from making such loans. This restriction is provided in section 1 of the regulation, which together with other pertinent provisions, prohibits a bank from making a loan to buy listed stocks which is secured by any stock whether listed or not. Security brokers and dealers also are prohibited from making such loans by the present provisions of the Board's Regulation T.

"We recognize that the restrictions against security loans may have the incidental effect of preventing some stockholders from exercising their subscription rights, in those cases where the stockholder could not make the purchase without borrowing from a bank or broker. It may also happen in other cases, as you say, that certain of the stockholders prevented from subscribing under this contingency would have a particular interest in maintaining their proportionate interest in the company.

"Considering the broader objectives of the security loan regulations, however, we question whether such cases are numerous enough to justify excepting stocks purchased under subscriptions from the provisions of the regulation. Credit for exercise of rights is, after all, just as inflationary as any other security market credit. Then too, an amendment of this kind would complicate the regulation and raise administrative difficulties. With regard to the marketing of the stock, we have not considered that in the present state of the market there would be any difficulty in floating the issue for cash.

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"We appreciate your point of view and assure you that it is no part of the purpose of the security loan regulations to prevent stockholders from maintaining their proportionate interests. In the opinion of this Board, however, an amendment designed to obviate any incidental effects of this kind would not be justified at this time because it would weaken the effectiveness of these regulations as a part of the Government's anti-inflation program."

Approved unanimously.

Letter to Mr. Gary M. Underhill, Executive Director of Morris Plan Bankers Association, 1025 Connecticut Avenue, N. W., Washington, 6, D. C., reading as follows:

"This refers to your letter of May 1, 1946, asking about the relationship of the New Jersey veterans loan act (as amended by Chap.121, P. L. 1946) to section 8(o) of Regulation W. Section 8(o) reads as follows:

"This regulation shall not apply to any of the following:

"(o) Servicemen's Guaranteed Loans. - Any extension of credit guaranteed in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944, or by any State agency pursuant to similar State legislation."

"It is the opinion of the Board that the New Jersey act referred to above provides for loans 'guaranteed' by a 'State agency pursuant to similar State legislation' and accordingly that any loan guaranteed or insured under the terms of that act would be exempt from Regulation W.

"With regard to your other questions, it is the view of the Board that section 8(o) establishes the Board's present policy with respect to the credits therein described and contains no implications concerning other matters."

Approved unanimously.

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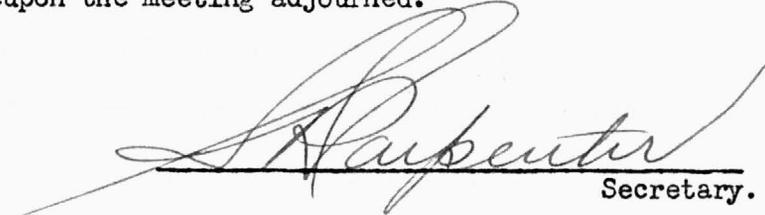
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Letter to Mr. Emil Schram, President of The New York  
Stock Exchange, reading as follows:

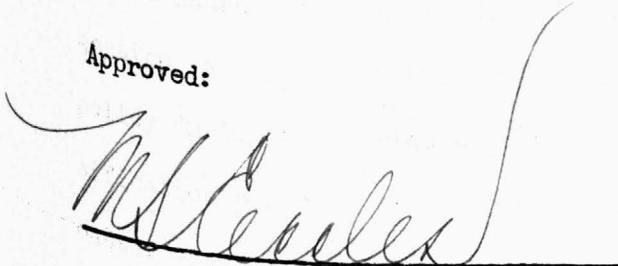
"It would be of interest and value to us, and we should think it would be of interest and value to the Exchange, to have at the end of this coming June another count of the number of margin accounts — made on the basis of the same specifications that the Exchange used last year."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.