A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 25, 1946, at 11:45 a.m.

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

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Paulger, Director of the Division of Examinations
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, General Counsel
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Horbett, Assistant Director of the Division of Bank Operations

Chairman Eccles stated that the suggestion had been made by the Federal Reserve Bank of New York that a letter be sent to all banks in the Second Federal Reserve District with respect to loans by banks for the speculative purchasing and carrying of Government securities and that when the matter came to his attention he expressed the opinion that it would be desirable to send a letter on the subject to the Presidents of all of the Federal Reserve Banks. He also said that a draft of letter prepared for that purpose was discussed at the meeting of the executive committee of the Federal Open Market Committee on June 10, 1946, at which time consideration was given to the question whether the matter should be taken up with the Comptroller of the

Currency and the Federal Deposit Insurance Corporation with a view to a joint letter being sent over the signatures of the three supervisory agencies to all member and non-member banks, but that the members of the executive committee had agreed that the proposed letter should be revised in the light of the discussion at the meeting and that, after approval of the revision by the members of the executive committee and after consultation with the Treasury, the letter might be sent by the Board of Governors.

The revised draft of letter was read and it was the consensus of the members present that it would not be necessary at this time to send copies of the letter to the Treasury, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation as it was a logical follow-up to the work done by the Federal Reserve Banks in connection with the war loan drives and related to a matter of bank credit which was primarily a responsibility of the Federal Reserve System, that when the letters sent by the Federal Reserve Banks to the banks in their respective districts were received by the Board consideration could be given to sending copies to the Treasury, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation and to the steps that should be taken to correct any situations that appeared to be contrary to the policy referred to in the letter.

Thereupon, the revised draft of letter to the Presidents of all of the Federal Reserve Banks was approved unanimously, as follows:

"The program of the Government for the financing of the war emphasized that banks should not make loans to facilitate speculative purchases of Government securities. On October 8, 1945, prior to the Victory Loan, the Secretary of the Treasury addressed a letter to all banks in the United States in which the banks were requested to decline to make loans for speculative purchases of Government securities and to decline to accept subscriptions from customers which appeared to be entered for speculative purposes.

"It was recognized, however, that there would be instances in which purchasers of securities for investment and not for speculation would want to anticipate income by borrowing temporarily from banks. It was understood that these loans would be repaid out of income and would have maturities of not to exceed six months. Loan arrangements of this character were recognized in the joint statement issued by the National and State Bank Supervisory Authorities in 1942 which said that 'Such loans will not be subject to criticism but should be on a short term or amortization basis fully repayable within periods not exceeding six months'.

"During the Victory Loan, a large amount of long-term bonds was purchased with the aid of bank loans. It has been reported that many such loans have not been repaid out of current income and that bank credit has been used for speculative carrying of Government securities. Reports have been received also of the activities of money brokers and others seeking to arrange bank loans on Government securities for clients without provision for amortization and with margins and rates of interest which emphasize high returns on small amounts of the borrower's own funds required for relatively large transactions. The same general considerations which had led to efforts to discourage speculative subscriptions for Government securities during the war loan drives clearly apply to this sort of loan.

"Borrowing from banks creates an addition to the country's money supply to the same extent as direct purchasesof securities by banks. The existing unprecedented supply of deposits and currency, in the face of an inadequate supply of goods and services, is a dangerous inflationary potential and, therefore, every effort should be made to reverse the wartime trend of increased borrowing for the purpose of purchasing and carrying Government securities and to reduce as much as possible the use of bank credit for that purpose. This important objective will not be accomplished if loans which are paid at one bank are merely transferred to other banks.

"This subject was discussed at the recent meeting of the executive committee of the Federal Open Market Committee and it was felt that as a logical follow-up to the work done by the Federal Reserve Banks in connection with the war loan drives and the "circulars sent to commercial banks in that connection, particularly the letter from the Secretary of the Treasury under date of October 8, 1945, the Federal Reserve Banks should again bring this matter to the attention of all banks in their respective districts.

"It is suggested, therefore, that your Bank address a letter to each bank in your district incorporating the observations contained in the first four paragraphs of this letter and that you furnish the Board four copies of the communication and advise it as to subsequent developments."

There was then presented a draft of letter to Mr. C. F. Burton, President of The City Bank, Washington, D. C., reading as follows:

"The Board has given consideration to the request contained in your letter of May 8 that your bank be declared an 'outlying' institution and be permitted to carry the reserves required of banks located outside of central reserve and reserve cities.

"As stated in the Board's acknowledgment of May 16, a copy of your letter was sent to Mr. Hugh Leach, President of the Federal Reserve Bank of Richmond, for his comments. The Board has now been advised that, in response to a similar request that you made last year of the Federal Reserve Bank of Richmond, Mr. Leach wrote you on July 2, 1945 in part as follows:

'While the nature of the business enjoyed by a bank does enter into decisions on requests of this nature, the principal consideration must be the location of the bank "in an outlying district." The location of your main office at 9th Street and Massachusetts Avenue, and the location of one of your branches at 10th and Pennsylvania Avenue would in our opinion preclude any possibility of favorable action on this request.'

"As you know, paragraph 4 of Section 19 of the Federal Reserve Act provides that a member bank in a reserve city may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to hold and maintain the reserve balances required of banks located outside of central reserve and reserve cities, provided it is 'located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter.

"While the Board appreciates your views on this subject it feels that it has no alternative but to concur in the opinion "expressed by the Federal Reserve Bank of Richmond that the specific provisions of law cited above preclude favorable action on your request."

After a discussion of questions asked by Mr. Vardaman relating to the policy followed by the Board in the past in connection with requests of this kind, the letter to Mr. Burton was approved unanimously.

Chairman Eccles stated that President Young of the Federal Reserve Bank of Chicago called last week to say that Mr. Stoddard, President of the Michigan National Bank, had inquired what the possibilities were of action by the Board with respect to the reserve city status of Grand Rapids, Michigan, that Mr. Young had replied that he could not give any assurance as to when action would be taken by the Board, and that Mr. Stoddard said that he was coming to Washington this week with his attorney to talk with members of the Board and would bring with him the necessary papers with which to file a suit against the Board contesting the validity of the amendment to Regulation D, Reserves of Member Banks, which was adopted by the Board on August 1, 1945, and which required that a bank with a branch in a reserve city maintain the same reserves as reserve city banks.

There was a further discussion of the questions which had been raised in connection with the amendment and the possible ways open to the Board to meet the problems involved, including the determination of a formula for the designation of reserve cities and changes that might be made in the law.

There was unanimous agreement that a satisfactory solution of the basis upon which member bank reserves are computed could be provided only by further legislation by Congress, that pending the adoption of legislation the Board should adopt a formula for the designation of reserve cities, that consideration should be given to such a formula when the recommendation to be made by Messrs. Szymczak and Vardaman in accordance with the action taken at the meeting of the Board on April 30,1946, was received, and that if Mr. Stoddard should come to Washington this week Mr. Vardaman would confer with him.

At this point Mr. Leonard, Director of the Division of Personnel Administration, joined the meeting and Mr. Horbett withdrew.

Chairman Eccles read a letter received by him under date of June 19, 1946, from Paul R. Hutchings, International President of the Office Employes International Union, stating that he would greatly appreciate having an opportunity to confer with Chairman Eccles at the earliest opportunity with regard to a matter of mutual interest concerning the Federal Reserve Bank of Dallas.

It appeared that Mr. Hutchings wished to discuss the recent request of an office employees' union for certification as the bargaining agent for the employees of the Federal Reserve Bank of Dallas, to which reference was made at the meeting of the Board on June 11, 1946, and in that connection Mr. Leonard stated that yesterday a representative of the National Labor Relations Board called to say that it was understood from earlier conversations that if that Board were inclined to hold that the National Labor Relations Act applied to the Federal Reserve Banks that the Board of Governors would want to file a statement on that question and that the National Labor Relations Board was ready to receive such a statement. Mr. Leonard also said that it was understood that the labor union was also being given an opportunity to file a statement and that it was expected by the National Labor Relations Board that the statement of the Board of Governors would be presented within a week or so.

Mr. Vest had prepared a draft of statement that might be submitted by the Board to the National Labor Relations Board and it was understood (1) that Chairman Eccles would advise Mr. Hutchings that he would be glad to see him, and (2) that the draft of statement prepared by Mr. Vest would be wired to the Presidents of all of the Federal Reserve Banks today with the request that after they had considered the draft with their counsel they submit any comments or suggestions that they might have to make to reach the Board by wire not later than July 1, 1946, or sooner if necessary to enable the Board to file its statement in the time available.

The following draft of letter to Mr. Triffin, Economist in the Division of Research and Statistics was read and, upon motion by Mr. Vardaman, was approved unanimously:

"Carrying out the procedure contemplated in the Board's letter to you of July 24, 1945, you are to return to Guatemala and the Dominican Republic for the necessary work in connection with plans for monetary and banking reorganization in those countries. You will proceed first to Guatemala, accompanied by

"Mr. Grove, to be present at the opening of the new central bank. Leaving Mr. Grove in Guatemala for the work called for by the reorganization, you will proceed to the Dominican Republic. As contemplated by the Dominican Republic Government's request, you will participate in the final discussion of the monetary, central bank, and general banking bills with the appropriate Government officials and also work on the draft of the constitutional amendment and report thereon needed for the final introduction of the legislative reform. You will then return to Washington. On your way to the Dominican Republic or on your return therefrom, you will stop in Havana for conference with the Cuban authorities.

"Upon the completion of his work, Mr. Grove will return to Washington from Guatemala.

"Pending consideration by the Board of data relating to traveling and living expenses in the Caribbean region, you and Mr. Grove will be entitled to your actual necessary transportation expenses and a per diem in lieu of subsistence of $8 while absent from Washington upon the discharge of this duty, or to such higher per diem as the Board finds justified by the data referred to.

At this point Messrs. Hammond, Smead, Paulger, Leonard, Vest and Thomas withdrew from the meeting and the action stated with respect to each of the matters hereinafter 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 June 21, 1946, were approved unanimously.

Memorandum dated June 20, 1946, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that Miss Ardith Elaine Jeffries be appointed as a Clerk-Typist in that Division on a temporary indefinite basis at a salary of $1,902 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

The memorandum also stated that Miss Jeffries would become a member of the Federal Reserve retirement system unless she still had funds in the Civil Service Retirement System from her previous employment in the Government.

Approved unanimously.

Memorandum dated June 20, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that an assessment of two hundred and thirty-eight thousandths of one per cent (.00238) of the total paid-in capital and surplus (sections 7 and 13b) of the Federal Reserve Banks as of June 30, 1946, be levied against the Federal Reserve Banks for the general expenses of the Board of Governors for the period July 1 to December 31, 1946, and that the Banks be instructed to pay in the assessment in two equal installments on July 1, 1946, and September 3, 1946.

The following resolution levying an assessment in accordance with the above recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1946, it is necessary that a fund equal to two hundred and thirty-eight thousandths of one per cent (.00238) of the total paid-in capital stock and surplus (Section 7 "and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

"(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and thirty-eight thousandths of one per cent (.00238) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank as of June 30, 1946.

"(2) Such assessment shall be paid by each Federal Reserve Bank in two equal instalments on July 1, 1946, and September 3, 1946, respectively.

"(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Letter to Mr. Lassiter, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in Mr. Leach's letter of June 24, 1946, the Board of Governors approves, effective July 1, 1946, the payment of salaries to the following members of the Federal Reserve Agent's Staff at the rates indicated:

Name	Title	Annual Salary
	Richmond	
Robert L. Shepherd	Asst. Federal Reserve Agent	$2,820
Beverley P. Higgason	Alternate Asst. Federal Reserve Agent	2,520
	Baltimore Branch	
Eugene L. Shipley	Federal Reserve Agent's Representative	3,780
	Charlotte Branch	
T. Wesley Bagby	Federal Reserve Agent's Representative	3,150

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves effective July 1, 1946, the request contained in your letter of June 24, 1946, that the Bank be authorized to exceed maximum annual salaries under the personnel classification plan of the Bank, including Branches, by as much as 30 per cent of the first $3,000 of annual salary, provided this does not increase a salary beyond $7,500.

"This authorization supersedes the authorization given in the Board's letter of November 16, 1945, to exceed maximum annual salaries by as much as 15 per cent of the first $3,000 of annual salary, subject to the over-all limitation of $7,500.

"It is understood that this program is an interim measure considered necessary pending completion of the revision of the personnel classification plan."

Approved unanimously.

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

"This refers to Mr. Dierck's letter of June 11, 1946, with regard to the application of the Shelby County State Bank, Shelbyville, Illinois, for permission to exercise fiduciary powers.

"In view of the information submitted, and the favorable recommendation made, the Board of Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under its charter and the laws of the State of Illinois. The Board's approval is given subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

"1. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of "or property acquired from, affiliates of the bank.

"2. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.

"3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise the Shelby County State Bank, Shelbyville, Illinois, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board."

Approved unanimously.

Letter to "DeKalb Trust and Savings Bank," DeKalb, Illinois, 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 dated June 24, 1946, to the Federal Deposit Insurance Corporation, Washington, D. C.

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the Roswell State Bank, Roswell, New Mexico, became a member of the Federal Reserve System on June 19, 1946, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in "the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

"1. The financial history and condition of the bank,
"2. The adequacy of its capital structure,
"3. Its future earnings prospects,
"4. The general character of its management,
"5. The convenience and needs of the community to be served by the bank, and
"6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to The First National Bank of St. Johnsville, St. Johnsville, New York, reading as follows:

"This refers to the resolution adopted on February 13, 1945, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise hereafter any of the powers granted by section 11(k) without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of section 11(k).

"Since it may be necessary for you to file a certified copy of the Board's certificate with the State authorities in connection with the release of the securities which you have "deposited with them, such a copy is enclosed herewith."

Approved unanimously.

Letter to International Banking Corporation, New York, New York, reading as follows:

"This refers to the letter of June 13, 1946, from Vice President N. C. Lenfesty of your institution, requesting an extension of the time within which you may establish a branch at Paris, France.

"The Board of Governors of the Federal Reserve System granted its permission on September 7, 1944, for the establishment of such a branch with a proviso that it be established and opened for business on or before February 1, 1945. By its letters of February 1, 1945, and July 13, 1945, such time was extended to August 1, 1945, and August 1, 1946, respectively.

"The Board of Governors of the Federal Reserve System extends to August 1, 1947, the time within which International Banking Corporation may establish and open for business a branch at Paris, France, in accordance with the provisions of its order of September 7, 1944.

Approved unanimously, for transmission through the Federal Reserve Bank of New York.

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

"This refers to your letter of June 14, 1946, enclosing copies of various documents relating to an increase in the maximum rate of interest on time and savings deposits in the State of New Jersey, including a copy of an order issued by the Commissioner of Banking and Insurance of New Jersey, dated June 4, 1946, fixing the maximum interest and dividend rates which banks, trust companies or savings banks may pay after July 1, 1946, at the rate of 1-1/2 per cent per annum compounded quarterly.

"In view of the provisions of section 24 of the Federal Reserve Act and the Board's Regulation Q, and of the order of the Commissioner of Banking and Insurance of New Jersey, the Board concurs with the opinion of Counsel to your Bank that the rate of interest accruing after July 1, 1946, and during "the period such order is legally in effect, which a national bank or other member bank located in New Jersey may lawfully pay on time and savings deposits may not exceed the rate of 1-1/2 per cent per annum prescribed in such order.

"It is believed desirable, as proposed in your letter, that notice to the effect above indicated be given by your Bank without delay to all member banks in your district located in the State of New Jersey, calling attention to the applicable provisions of section 24 of the Federal Reserve Act, to section 3(c) of the Board's Regulation Q, and to the order of the New Jersey Commissioner of Banking and Insurance, with particular mention of the fact that, under the currently effective supplement to Regulation Q, member banks are prohibited from paying interest at a rate in excess of 1 per cent per annum on time deposits (except Postal Savings deposits) having maturities of less than 90 days or payable upon written notice of less than 90 days."

Approved unanimously, together with a similar letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, and letters to the Comptroller of the Currency and the Post Office Department transmitting copies of Mr. Wiltse's letter and the Board's reply.

Thereupon the meeting adjourned.

Secretary.

Approved:

Chairman.