

A meeting of the Board of Governors of the Federal Reserve System with the executive committee of the Federal Advisory Council was held in the offices of the Board of Governors in Washington, D. C., on Wednesday, June 26, 1946, at 12:00 o'clock noon.

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

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
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

Messrs. Brown, Spencer, Wiggins, and McCoy,
members of the executive committee of the
Federal Advisory Council.

Mr. Loeb, substituting for Mr. Williams, a
member of the executive committee of the
Federal Advisory Council.

Mr. Prochnow, Acting Secretary of the Fed-
eral Advisory Council.

Mr. Brown stated that the executive committee wished again to express appreciation of what the Federal Reserve System had done in urging the adoption of the current program for the retirement of Government debt under which Treasury balances were being used to retire

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maturing securities at a more rapid rate than the Treasury originally had been willing to undertake. He said that the money market situation resulting from the program was entirely satisfactory and that it was hoped that there would be no change in the existing policy.

Chairman Eccles stated that he did not know of anything that would indicate a change in policy and that there appeared to be nothing in the speech made by Mr. Snyder yesterday when he took the oath of office as Secretary of the Treasury which would indicate any disagreement with the present program. He also said that the Board felt that the retirement of approximately nine billion dollars of securities between now and November would be desirable because of the anti-inflationary effect that it would have, that if that were done the issues of long-term Government securities eligible for purchase by banks probably would not increase much in price, and that after the existing Treasury balances had been reduced to a more normal level consideration would have to be given to other steps that could be taken under existing law, such as increasing reserve requirements of central reserve city banks, to keep yields on long-term securities from declining further, and that if these measures were not effective the only alternative would be for Congress to give the System additional authority to deal with the situation.

In connection with the three suggestions contained in the Board's annual report for dealing with the postwar monetary situation, Mr. Brown stated that the executive committee would like to present for consideration by the Board a step that might be taken under the existing powers of the

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Federal Reserve Banks and the Board which might accomplish some of the results which the Board had in mind in its annual report. The suggestion, he said, was that the Federal Reserve Banks establish substantially the following schedule of discount rates on advances to member banks secured by Government obligations with the maturities shown:

<u>Maturity of securities pledged as collateral</u>	<u>Discount rate</u>
Within one year	1 per cent
1 to 2 years	1-1/4 per cent
2 to 3 years	1-1/2 per cent
3 to 4 years	1-3/4 per cent
4 to 5 years	2 per cent
5 to 6 years	2-1/4 per cent
6 years and over	2-1/2 per cent

Mr. Brown went on to say that it was the feeling of the members of the executive committee of the Council that such a schedule would cause banks to hold a larger part of their security portfolios in short-term Government securities in order that they might be prepared to meet a shift of deposits without having to pay the higher discount rates and that this would narrow the market and relieve the pressure on prices of the longer-term issues.

In a discussion of this suggestion, reference was made to the rates that would have to apply to discounts and advances to member banks on other forms of collateral if the proposed schedule of rates was to be effective.

Mr. Thomas said that it had been the experience of the System in the past with preferential rates that member banks were usually able to borrow at the lowest rate available and to use the funds for any purpose

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that they desired, and that, therefore, it was difficult to see any important relationship between the rates at which member banks could borrow at the Federal Reserve Banks and the tendency of the banks to purchase long-term securities.

Mr. Brown responded that it was the thought of the executive committee of the Council that the realization on the part of the banks that they could borrow at a materially lower rate on short-term securities would have a psychological effect which would influence them to hold a larger portion of their investments in short-term securities.

Chairman Eccles stated that the suggestion was one that would be given consideration along with other steps that might be taken within the existing authority of the System.

Mr. Brown then inquired what reactions had been received to the bank holding company bill recently proposed by the Board and Chairman Eccles replied that there had been no new developments in that connection since the last meeting of the Council with the Board. He also said that he understood that the independent bankers and holding company groups were holding meetings on the subject and were undertaking to have the bill supported by the State Bankers Associations.

Mr. McCoy stated that it appeared that in Ohio the proposed bill was being interpreted as an assurance that bank holding companies could proceed with plans to acquire the ownership of banks without the risk of legislation freezing the existing situation or applying a death sentence. Following a comment by Chairman Eccles that there was nothing in the present law that would prevent such activities as it was possible for bank

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holding companies to acquire stock or assets of banks without obtaining a voting permit from the Board, Mr. McCoy said that the proposed bill appeared to give responsible persons, who would be interested in providing satisfactory management for bank holding companies, the assurance that there would be no freezing or death sentence legislation and that they would be free to go ahead with their plans as long as the holdings of the parent company consisted only of bank stocks.

Mr. Wiggins stated that it was expected that the bill would be discussed at the annual convention of the American Bankers Association in September and that the Association would favor a bill which would limit acquisitions by bank holding companies to banks within the State in which the head office of the holding company was located. This would be on the theory, he said, that holding company groups were similar to branch banking systems and that branch banking would be limited to State lines. He added that such a position would be in accordance with the long-established policy of the American Bankers Association.

At this point Mr. Szymczak left the meeting to keep another appointment.

A discussion ensued as to whether it would be desirable to limit activities of bank holding companies to the acquisition of banks within a State, a trade area, a Federal Reserve district, or a Federal Reserve Bank or branch territory. The members of the Board present indicated a preference for a limitation to a Federal Reserve Bank or branch territory as being the most logical solution from the standpoint of the responsibilities of the Board and the Federal Reserve Banks for supervision and

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examination, but that if future expansion of bank holding companies was to be allowed discretion should be vested in the Board of Governors within a general policy which would be established by legislation. In discussing this point it was observed that there was no more reason for ownership by a holding company of banks not in a common trade area than there was for such ownership of utility companies, that such ownership of the latter had been declared by the Government to be contrary to the public interest, and that a provision in the law limiting the activities of a bank holding company to a Federal Reserve Bank or branch territory would make the administration of the statute less difficult. During the discussion there appeared to be general agreement with this position.

In response to a comment by Mr. Brown that there was agreement among the members of the Council that some corrective legislation was necessary, Chairman Eccles stated that everyone was agreed that something should be done but that there were such wide differences of opinion as to the form the legislation should take, even after five or six years of consideration, that nothing was being done. Mr. Wiggins expressed the opinion that there was greater agreement today than there had been for several years.

Turning to another subject, Mr. Brown said that the executive committee of the Council understood that the Board had sent out a questionnaire on a possible amendment to sections 13 and 13b of the Federal Reserve Act and that a report had been made on the same subject by a committee of the Department of Commerce.

Mr. Draper responded that a few days ago representatives of the

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Department of Commerce called at the Board's offices and discussed a draft of a proposed amendment to section 13b of the Federal Reserve Act which had been prepared in the Department. He said that the draft was a rather complicated revision of the present law, that the representatives had been informed that the Board was considering a simpler solution to the problem for submission to Congress at a later date, and that it was not expected that anything would be suggested during the present session of Congress. He added that apparently the Department of Commerce did not contemplate submitting its draft of bill during the current session of Congress and that the representatives of the Department were willing to consider changes in their draft.

Chairman Eccles referred to some of the points covered by the draft of bill recently sent by the Board to the Federal Reserve Banks for comment, and in that connection he made it clear that the Board was not considering anything in the nature of blanket loan agreements with banks and that any loan guarantee by the Federal Reserve Banks provided by the amendment would be available only if credit were not available otherwise through the usual banking channels. He also discussed briefly the effect of such a guarantee in increasing the amount of loans that banks could make to any one borrower and why that result made the guarantee attractive to small banks.

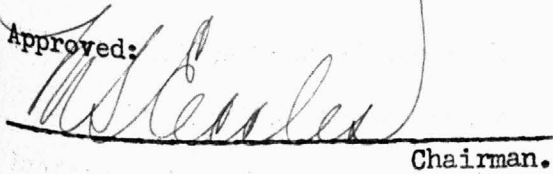
The members of the executive committee of the Council expressed strong disapproval of the blanket participation agreements sponsored by the Reconstruction Finance Corporation and stated that these agreements

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were having a very unsound effect on the lending policies of banks.

Thereupon the meeting adjourned.


Secretary.

Approved: 
Chairman.