A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 2, 1946, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Young, Assistant Director of the Division of Research and Statistics

There were presented telegrams to Mr. Whittemore, President of the Federal Reserve Bank of Boston, Mr. Clarke, Assistant Counsel and Assistant Secretary of the Federal Reserve Bank of New York, Mr. McCready, Vice President of the Federal Reserve Bank of Philadelphia, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Johns, General Counsel and Secretary of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Mangels, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of Atlanta and San Francisco on July 30, by the Federal Reserve
Bank of St. Louis on July 31, by the Federal Reserve Banks of New York, Philadelphia, Chicago, Kansas City, Dallas and San Francisco on August 1, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum dated July 25, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mrs. Josephine L. Lehman be appointed as a clerk in that Division on a temporary basis for a period of not to exceed three months, with salary at the rate of $2,394.00 per annum, effective as of the date upon which she would enter upon the performance of her duties after having passed the usual physical examination.

Mrs. Lehman was a sister of Miss Lupton, a draftsman in the Division of Research and Statistics, who had been in the employ of the Board for approximately seven years. The memorandum had been circulated among the members of the Board and was on the docket at the request of Mr. Vardaman.

Mr. Vardaman stated that he was opposed to the employment by the Board of relatives of individuals already on the Board's staff, and that in the absence of a contrary policy of the Board he would suggest that the appointment of Mrs. Lehman be not approved.

Chairman Eccles reviewed the policy in the past with respect to the employment of relatives of staff members, and all of the
members of the Board present agreed that it should be the policy of the Board in the future that the employment of relatives of members of the staff should not be approved.

Mr. Young outlined the circumstances which gave rise to the recommendation with respect to Mrs. Lehman, and stated that the work planned for her was not of such importance as to suggest an exception to the policy stated above.

Thereupon, upon motion by Mr. Vardaman, it was voted unanimously that Mrs. Lehman's employment be not approved.

Chairman Eccles referred to the letter which President Truman was sending to the heads of executive departments and agencies of the Government requesting them to reduce expenditures as much as possible, and stated that while the expenses of the Board and the Federal Reserve Banks were not paid from appropriated funds and were not reflected in the Federal budget, the Board was more interested than any other agency of the Government in combating inflation, and, therefore, should cooperate by deferring expenditures wherever practicable and by reducing other expenses in accordance with the President's request. He suggested that a review be made of the Board's budget to see what economies could be effected and that a letter be sent to the Federal Reserve Banks enclosing a copy of the President's letter and asking them to comply with the request contained therein.
Chairman Eccles' suggestion was approved unanimously.

At this point, Messrs. Vest, Nelson and Young withdrew from the meeting and the action stated with respect to each of the matters hereinafter set forth was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 31, 1946, were approved unanimously.

Telegram to Mr. John Curry, c/o Algernon Blair, Contractor, reading as follows:

"Board of Governors of Federal Reserve System has appointed you director of Birmingham Branch of the Federal Reserve Bank of Atlanta for unexpired portion of term ending December 31, 1947, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to the board of directors of the "East End State Bank", Houston, Texas, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas. The letter also contained the following special comments:

"It appears that the bank possesses the power to issue and sell investment certificates, which power is not necessarily required in the conduct of a banking and trust business. Attention is called to the fact that if the bank should desire to exercise such power,
it will be necessary, under condition numbered 1, to obtain the permission of the Board of Governors before doing so.

"The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to three months from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System."

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

Letter dated August 1, 1946, to Mr. Davis, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your letter of July 23, 1946, presented a question under Regulation U and suggested that a published Board ruling might be desirable to clarify the matter. In this connection, there is set out below the text of a ruling on the subject that will be published in the Federal Reserve Bulletin.

"CAPITAL CONTRIBUTION LOANS UNDER REGULATION U"

"The Board has been asked several questions as to whether a loan secured by stocks is subject to Regulation U if it is made to one or more individuals to enable them to contribute capital to a stock brokerage firm."

"It appears that the brokerage firm purchases and carries for customers stocks that are registered on a national securities exchange. In one such case, the brokerage firm states that it does a strict commission business and makes no investments for its own account. In another such case, the firm does both. In some such cases the capital would replace capital withdrawn and in others it would be new money."
"It is the view of the Board that all such loans should be considered to be for the purpose of purchasing or carrying registered stocks, and that, as such, they are not permitted under the present terms of the regulation."

Approved unanimously.

Thereupon the meeting adjourned.

[Signatures]

Chairman.

Secretary.