

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 13, 1946, at 11:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Morrill, Special Adviser  
Mr. Vest, General Counsel  
Mr. Van Fossen, Assistant Director of  
the Division of Bank Operations

Mr. Vardaman was absent for the reasons stated in the minutes of the Board of Governors of the Federal Reserve System for August 6, 1946.

Before this meeting there had been circulated among the members of the Board a letter to the President of the United States reading as follows:

"I have brought to the attention of the other members of the Board of Governors the letter which you sent me on August 1, 1946, enclosing a copy of your letter of the same date to Mr. Szymczak in which you request him to accept the assignment, for a minimum of one year, as Chief of the Trade and Commerce Branch, Economics Division, Office of Military Government in Germany.

"We shall make every effort while he is away to see that the work of the Board does not suffer because of his absence. Although he will be leaving at a time when the System will be faced with many important problems, we fully realize the importance of the work which he has been asked to do and the necessity that it be done well.

"We understand that it is your wish that he continue to receive his salary as a member of the Board during the assignment and arrangements have been made accordingly."

Approved unanimously.

Chairman Eccles stated that, inasmuch as it was expected that Mr. Szymczak would be leaving for Germany shortly and would be gone for a year or longer, it would be desirable if another member of the Board were appointed to serve in Mr. Szymczak's place as a member of

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the Personnel Committee until February 28, 1947, and that it was suggested that Mr. Evans be appointed to serve in that capacity. Chairman Eccles also said that he had taken up with the President the appointment of another member of the Board to fill the existing vacancy, that it was expected that the President would take action on the appointment shortly, and that when the new member was appointed it would be necessary to make new assignments of subjects for initial consideration by the individual members of the Board. He made the further statement that it would be desirable at that time to give consideration to the appointment of an alternate member of the Personnel Committee to serve in the absence of either of the regular members.

The appointment of Mr. Evans as a member of the Personnel Committee to serve until February 28, 1947, in place of Mr. Szymczak, was approved unanimously.

Under date of July 18, 1946 the Board received a letter from President Peyton of the Federal Reserve Bank of Minneapolis, referring to the approval by the Board of Governors of an expenditure of not to exceed \$60,000 covering the cost of the addition of a second floor to the Helena Branch building, and stating that it had been reported by the Managing Director of the Branch that a total of \$74,031.00 had been committed for that purpose and that at a meeting of the board of directors of the Bank unanimous approval was given to payment of the amounts involved in excess of the total previously approved.

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When Mr. Peyton's letter was received in the Board's offices a draft of a reply was prepared in which it was stated that, under the circumstances, the Board approved the expenditure but regretted that a more accurate estimate of the cost of the work had not been made originally and that it would be appreciated if Mr. Peyton would remind the directors of the Bank and Helena Branch of the importance of conforming to the understanding that obligations in connection with expenditures approved by the Board should not be incurred by the Federal Reserve Banks in excess of amounts authorized by the Board. Mr. Vardaman had indicated that he would not be willing to approve a letter in the form proposed and felt that if the Board were willing to approve the excess expenditure the letter to the Federal Reserve Bank should say only that it was regretted that a more careful estimate of the cost of construction was not made previously and that the increased cost was not brought to the attention of the Board earlier. He also felt that if a letter along the lines proposed was sent a member of the Board should first talk with Mr. Peyton.

The draft of the letter was discussed in the light of the responsibilities of the Board for general supervision of the operations of the Federal Reserve Banks and the policy of the Board in the past of approving expenditures covering the construction of Federal Reserve Bank and Branch buildings and substantial alterations and additions thereto, and it was unanimously agreed that the letter to Mr. Peyton should be redrafted in accordance with suggestions made during the discussion and re-submitted to the Board for approval.

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There was then presented a draft of the letter to the Presidents of Federal Reserve Banks prepared in accordance with the action taken at the meeting of the Board on August 2, 1946, enclosing a copy of the letter sent by the President of the United States to various departments and agencies of the Government asking them to hold Government expenditures to the lowest possible level as a means of reducing inflationary pressures. The draft of the letter suggested that the Reserve Banks undertake a review of their expenditures for the purpose of effecting any economies that might be possible in harmony with the President's request.

While the draft of the letter was in course of preparation Mr. Morrill received a telephone call from President McLarin of the Federal Reserve Bank of Atlanta in which he stated that he was considering the transfer of the redemption of savings bonds from the Nashville Branch to the head office in order to effect a very substantial saving in the cost of that operation. This proposal raised the question whether, in the interest of effecting economies as requested in the President's letter, the Board would be willing to have the Federal Reserve Banks reverse to any degree the policy followed in recent years of expanding the functions and services performed by the branches, and the matter was on the agenda for consideration at this meeting at the request of Mr. Szymczak.

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Mr. Szymczak stated that he had discussed the question presented by President McLarin with Fiscal Assistant Secretary of the Treasury Bartelt, who felt that economies should be effected in accordance with the President's request, but that the elimination or transfer of functions should not be carried to a point where there would be adverse public reaction or the services that were being performed at the present time were seriously impaired, and that the whole matter should be studied by the Treasury on or about September 1, 1946. A memorandum addressed to Mr. Szymczak by Mr. Morrill under date of August 12, 1946 setting forth fully the developments in connection with Mr. McLarin's enquiry is in the Board's files.

In the discussion of the question of policy involved the members of the Board indicated agreement with the suggestion that the Board should be willing to consider any changes in the work at the branches which would effect substantial savings and that the draft of the letter to the Presidents of the Federal Reserve Banks should be changed to include a request that the Banks take up with the Board any substantial changes proposed in the functions or services performed at the Reserve Banks or branches before the changes were actually put into effect.

At this point Mr. Thurston, Assistant to the Chairman, Mr. Parry, Director, and Mr. Brown, Assistant Director of the Division of Security Loans, and Mr. Young, Assistant Director of the Division of Research and Statistics, entered the room.

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Reference was made to a memorandum dated August 12, 1946 from Mr. Evans and Mr. Parry reading as follows:

"Attached -- with the recommendation that it be adopted and made effective promptly\* -- is proposed Amendment No. 21 to Regulation W. The text of the amendment is incorporated in a proposed press release, also attached.

"The amendment changes the regulation in two respects: (1) credits up to \$2,000, instead of up to \$1,500 as heretofore, will become subject to the regulation; (2) the permissible maximum maturity for so-called "non-purpose" instalment loans will become 15 months, instead of 18 months as heretofore -- except that the permissible maturity for renewals of instalment loans in hardship cases will remain at 18 months.

"The purpose of this amendment, or the reason for its adoption, is to stiffen some of the requirements in order that the regulation may make a larger contribution to the Government's anti-inflationary campaign at a time when that campaign needs strengthening because inflationary forces are stronger than ever and because other anti-inflationary measures -- notably direct price controls -- have been weakened. Consumer credit has been expanding rapidly in recent months, at the extraordinary rate of about 3 billion dollars per year, and a considerable part of the expansion has been in categories which will be affected by the amendment. In addition, the bringing in of credits up to the \$2,000 level will (1) make the regulation more equitable as between the purchasers of high-priced and low-priced automobiles and (2) take account of the fact that there has been a substantial increase in the price of automobiles and other consumers' durables since the spring of 1942 when the \$1,500 figure was established.

"Although the proposed amendment has not been submitted to the Consultative Committee as a whole, it has been discussed with the Committee's most active member, its OPA member, Mr. Francis Bonner -- who has given it his full approval.

"Representatives of all the Reserve Banks have been consulted informally and while some of them (Richmond and Dallas, for example) are opposed to the amendment the majority of those heard from (9 in all) have expressed approval.

\*For example, September 3, 1946, if the amendment is adopted before August 15.

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"It is added for the record that we believe Regulation W to be in need before long of sweeping changes affecting its scope and its structure, which are not included in this amendment because they would involve substantial relaxation of the regulation. We contemplate that plans for a general revision of the regulation will be developed during the next few months so that they can be presented to the Board for action whenever the time may appear to be ripe."

The amendment referred to in the above memorandum was in the following form:

"AMENDMENT NO. 21 TO REGULATION W

"Issued by the Board of Governors  
of the Federal Reserve System

"Regulation W is hereby amended in the following respects, effective \_\_\_\_\_.

"1. Sections 1, 2(e), 2(h), 2(i), 6(a), 6(b), 7(a), 7(b), and 7(c) are amended by striking out '\$1,500' and inserting in lieu thereof '\$2,000'.

"2. Sections 6(b) and 10(b) are amended by striking out '18 months' and inserting in lieu thereof '15 months'.

"3. Footnote 5 attached to section 7(c) is amended so that it will read as follows:

"5 The maximum maturity is 6, 12, or 15 months from the date of the original loan as determined by its purpose, except that 18 months from the date of the renewal or extension is permissible with a Statement of Necessity pursuant to section 10(d).

"4. The last sentence of footnote 7 attached to section 10(a) is amended so that it will read as follows:

"Whenever the regulation is amended to increase or decrease the maximum maturity for any class of transactions, the terms of repayment 'permitted in the first instance' in so far as they relate to the maximum maturity for such class of transactions shall be deemed to be the terms applicable under the provisions of the amendment.

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"5. Section 10(d) is amended by inserting after the words 'except that' the words 'it may have a maturity of not more than 18 months and'."

At the request of the Board, Mr. Parry summarized the replies received from the Federal Reserve Banks with respect to the proposed amendment and read portions of the replies from some of the Banks. He also said that the matter had not been taken up with the Office of War Mobilization and Reconversion because of the statement contained in the recent report of the Director of that office to the effect that consumer credit controls should be continued and should be rigidly enforced. He added that if the Board adopted the amendment it should be prepared for vigorous criticism from the small loan companies.

Mr. Evans stated that studies looking to the effective streamlining and simplification of the regulation were being carried on and that he hoped that by the first of November a proposal could be submitted to the Board for action between that date and around the first of the year.

Chairman Eccles stated that because of the organized opposition that was developing to Regulation W, there was a real question whether the authority of the Board with respect to consumer credit controls would be continued, and that in order to meet the situation the Board should undertake the preparation of a statement of its position and a draft of legislation that might be adopted to continue the authority, so that the whole matter could be presented to Congress at the proper time.

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All of the members of the Board present indicated agreement with this suggestion and with the program outlined by Mr. Evans looking to the streamlining and simplification of the regulation.

At the conclusion of the discussion, upon motion by Mr. Evans and by unanimous vote, the amendment to Regulation W as set forth above was approved unanimously to become effective September 3, 1946.

In taking this action it was understood that the amendment would be sent by wire to all the Federal Reserve Banks today with the request that they print the amendment and distribute it to interested persons in their respective Federal Reserve districts, and that the following statement would be given to the press today for immediate release:

"The Board of Governors of the Federal Reserve System took action today to amend Regulation W relating to consumer credit in two respects. The first enlarges the scope of the regulation by making it applicable to all consumer credits up to \$2,000 instead of only those up to \$1,500. The second reduces the maximum maturity from 18 months to 15 months for instalment loans that are not connected with the purchase of consumers' durable or semi-durable goods. Instalment credits for the purchase of such goods remain subject to a maximum maturity of 12 months, or 15 months in the case of automobiles. The text of the amendment which becomes effective September 3, 1946, is as follows:"

Thereupon Messrs. Parry, Brown, Young and Van Fossen withdrew from the meeting.

Chairman Eccles stated that when it appeared that the Wagner-Ellender-Taft Housing Bill (which contained a provision reducing the

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insurance assessment on savings and loan associations from 1/8 to 1/12 per cent) would fail of passage in the recent session of Congress, sponsors of the provision introduced a separate bill reducing the assessment which was passed in the closing days of the session. He also referred to the position which the Board had taken on several occasions in the past in opposition to this change and said that following the passage of the bill it was discussed with Secretary of the Treasury Snyder, who expressed opposition to the measure, that thereafter it was mentioned in a conversation with a member of the White House staff, and that yesterday Captain Clifford called from the White House and asked for a statement of reasons why the President should not sign the bill. Chairman Eccles added that he proposed to send a letter to Captain Clifford today reading as follows:

"In accordance with our telephone conversation of last evening, I enclose a general memorandum outlining the three major reasons why I so strongly feel, as I am confident John Snyder and Maple Harl do, that the President should not sign H.R. 4428, which reduces the premium on Federal Savings and Loan insurance from 1/8 of 1 per cent to 1/12 of 1 per cent, making it the same as premium of the Federal Deposit Insurance Corporation. Actually, if any change were to be made in the Federal Savings and Loan premium it should be increased, not decreased, and it would be wholly inconsistent with Senator Wagner's recently introduced bill, which has the support of the Treasury, contemplating that FDIC insurance premiums shall be maintained with a view to paying off the Government funds provided for FDIC which are, in effect, a subsidy. The Federal Savings and Loan Insurance Corporation has a similar subsidy amounting to \$100,000,000. Their rate should certainly be maintained for the same purpose, that is, to pay off what amounts to a Government subsidy. This is all the more imperative at the present time in

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view of our budgetary situation. Getting this Bill, H.R. 4428, slipped through in the closing days of the Congress without any specific hearings on it appears to have been engineered by the Building and Loan people. The proposal to reduce the insurance premium was a part of the Wagner-Ellender-Taft housing bill, and the Board, in reporting on that Bill, vigorously opposed this provision. We had no chance to testify against H.R. 4428, nor did the Treasury or FDIC.

"Current figures covering Federal Savings and Loan operations are not readily available so that the only figures we can obtain to show the comparison with the FDIC are as of 1944. However, there is no reason to suppose that the ratios have materially changed in the interval.

"I certainly appreciate your interest in this matter, which is of real importance to the banks of the country."

The memorandum referred to in the letter was as follows:

"Memorandum on H.R. 4428,  
Reducing Federal Savings and Loan Insurance Corporation  
Premium Charged for Insurance from 1/8 of 1 per cent to  
1/12 of 1 per cent

"The major provision of this Bill is the reduction of the insurance premium. On a logical basis if any change were to be made in the premium it should be increased, not reduced. The Bill should not be permitted to become law for these reasons:

"The Federal Savings and Loan Insurance Corporation's reserve against its insured risk is still grossly deficient. Congress originally contemplated that the reserve should someday reach 5 per cent of the insured risk, but after 10 years of operation the reserve had reached only 0.57 per cent of the insured risk, as of June 30, 1944.

"The risk exposure of the FSLIC is far greater than that of FDIC. It has been contended that the risks are about the same and that therefore the FSLIC premium should be the same as that of FDIC -- 1/12 of 1 per cent. However, based on the latest available figures, insured banks (taking into account their capital, surplus and undivided profits and the amount of their deposits not covered by their holdings of Government securities and cash) have a cushion of approximately \$1 for every \$2.7 of risk.

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FSLIC insured institutions, on the same basis, have a cushion of only \$1 to \$8 of risk. In a word, the FDIC cushion is three times as big. In fact, on any basis of comparison, the FSLIC exposure is far greater than FDIC, so that the logic of any argument based on comparability would lead to increasing not reducing the FSLIC rate.

"It would be inconsistent for the Administration to approve this Bill which is diametrically the opposite of S. 2494, recently introduced by Senator Wagner and endorsed by the Treasury, contemplating that the FDIC premium shall be maintained with a view to repaying the Government funds which are, in effect, a subsidy to the FDIC. As a matter of principle, neither FDIC nor FSLIC should reduce their premiums until this Government money has been paid off. It is particularly important, from the budgetary standpoint, that the money be returned to the Government as rapidly as possible. The FSLIC has \$100,000,000 of Government-furnished money. It amounts to a subsidy for the benefit of private institutions just as the Government-furnished money in the FDIC is a subsidy to private banks. These private institutions constantly complain against subsidies for agricultural or other Government institutions and logically they should apply the same rule to themselves. At present, when the national debt is so great and such vigorous efforts are being made by the Administration to increase Government receipts and reduce expenditures, prudent policy requires that the premium of the FSLIC be maintained or even increased with the ultimate view of repaying the \$100,000,000 of subsidy to the Treasury."

All of the members of the Board present concurred in the position taken in the letter and memorandum and agreed that they should be sent.

At this point, Mr. Vest 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 August 2, 1946, were approved unanimously.

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The minutes of the meetings of the Board of Governors of the Federal Reserve System held on August 5, 6, 7, 8, 9, and 12, 1946, were approved and the actions recorded therein were ratified unani-  
mously.

Memorandum dated August 1, 1946, from Mr. Draper, reading as follows:

"The Board's Regulation C, which prescribes the conditions under which member banks may make bankers' acceptances, has not been revised for a number of years; and in view of the prospective revival of international trade as the result of the end of the war, with a possible increase in the acceptance business, consideration of a revision of the Regulation has been in progress for some months. A tentative draft of a proposed revision was submitted to the Federal Reserve Banks for their comments, as well as to the Subcommittee on Bankers' Acceptances of the Presidents' Conference. A draft of a revision of the Regulation has now been prepared in the light of the suggestions received; and it is recommended that a revision of Regulation C in the form attached be adopted by the Board to become effective immediately.

"In general, the revised Regulation C merely attempts to bring the existing Regulation up to date and to clarify some of its provisions. The revision also incorporates certain of the Board's interpretations of the law on this subject and includes a clarifying statement with respect to the use of dollar exchange acceptances. It retains the provision of the existing Regulation reserving to the Board the right to rescind after 90 days' notice the authority of a member bank to accept up to 100 per cent of its capital and surplus or to make dollar exchange acceptances.

"There is also attached a draft of a letter which it is recommended that the Board send to all Federal Reserve Banks announcing the adoption of the revised Regulation C and stating the Board's policy with respect to the treatment of outstanding powers of member banks to accept bills and drafts up to 100 per cent of their capital and surplus and to make dollar exchange acceptances. Under this policy, the Federal Reserve Banks are being requested to make a general review of all such outstanding powers as soon as practicable for the purpose of determining whether any such

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powers should be rescinded by the Board; and thereafter the question whether any such power should be rescinded will be considered at the time of the review of each examination of any member bank possessing these powers."

The draft of Regulation C submitted with Mr. Draper's memorandum was in the following form:

"REGULATION C

"Revised Effective \_\_\_\_\_  
"(Superseding Regulation C, Series of 1928)

"ACCEPTANCE BY MEMBER BANKS OF DRAFTS OR BILLS OF EXCHANGE

"INTRODUCTION

"This Regulation is based upon and issued pursuant to various provisions of the Federal Reserve Act, particularly the provisions of the seventh and twelfth paragraphs of section 13 of such Act, the texts of which are published in the appendix hereto. The Regulation relates to the acceptance by member banks of drafts or bills of exchange. Provisions governing the eligibility of bankers' acceptances of member banks for discount by the Federal Reserve Banks are contained in Regulation A; and provisions governing the purchase of bankers' acceptances by the Federal Reserve Banks are contained in Regulation B.

"SECTION 1. ACCEPTANCE OF COMMERCIAL DRAFTS OR BILLS

"(a) Authority. Any member bank may accept drafts or bills of exchange drawn upon it which grow out of any of the following transactions (hereinafter referred to as 'commercial drafts or bills'):

"(1) The importation or exportation of goods, that is, the shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between dependencies or insular possessions and foreign countries, or between foreign countries; 1/

"(2) The shipment of goods within the United States, provided shipping documents conveying or securing title are attached or are in the physical possession of the accepting bank or its agent at the time of acceptance;

1/ A member bank accepting any commercial draft or bill growing out of a transaction of the kinds described in subsection (a)(1) of section 1 will be expected to obtain before acceptance and retain in its files satisfactory evidence, documentary or otherwise, showing the nature of the transactions underlying the credit extended.

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"(3) The storage in the United States or in any foreign country of readily marketable staples,<sup>2/</sup> provided that the draft or bill of exchange is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering such readily marketable staples.<sup>3/</sup>

"(b) Maturity. No member bank shall accept any commercial draft or bill unless at the date of its acceptance such draft or bill has not more than six months to run, exclusive of days of grace.

"(c) Acceptances for one person. No member bank shall accept commercial drafts or bills, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation in an amount equal at any time in the aggregate to more than 10 per cent of its paid-up and unimpaired capital stock and surplus, unless the bank be and remain secured as to the amount in excess of such 10 per cent limitation by either attached documents or some other actual security growing out of the same transaction as the acceptance; but a trust receipt which permits the customer to have access to or control over the goods will not be considered "actual security" within the meaning of this subsection.

"(d) Limitation on aggregate amount. No member bank shall accept commercial drafts or bills in an amount equal at any time in the aggregate to more than 50 per cent of its paid-up and unimpaired capital stock and surplus; except that, with the permission of the Board of Governors of the Federal Reserve System as provided in subsection (e) of this section, any such member bank may accept such drafts or bills in an amount not exceeding at any time in the aggregate 100

"<sup>2/</sup> A readily marketable staple within the meaning of this Regulation means an article of commerce, agriculture, or industry, of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable, and (b) the staple itself easy to realize upon by sale at any time.

"<sup>3/</sup> It should be noted that pursuant to Regulations A and B Federal Reserve Banks may neither discount nor purchase bills arising out of the storage of readily marketable staples unless the acceptor remains secured throughout the life of the bill.

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per cent of its paid-up and unimpaired capital stock and surplus (hereinafter referred to as "authority to accept commercial drafts or bills up to 100 per cent"); but in no event may the aggregate amount of such acceptances growing out of domestic transactions exceed 50 per cent of such capital and surplus. Commercial drafts or bills accepted by another bank, whether domestic or foreign, at the request of a member bank which agrees to put such other bank in funds to meet such acceptances at maturity shall be considered as part of the acceptance liabilities of the member bank requesting such acceptances as well as of such other bank, if a member bank, within the meaning of the limitations prescribed in this section.

"(e) Authority to accept up to 100 per cent. (1) Any member bank desiring authority to accept commercial drafts or bills up to 100 per cent shall file with the Board of Governors, through the Federal Reserve Bank of its district, an application for permission to exercise such authority. Such application need not be made in any particular form, but shall show the present and anticipated need of the applicant bank for the authority requested.

"(2) The Board of Governors may at any time rescind any authority granted by it pursuant to this section after not less than 90 days' notice in writing to the bank affected.

"SECTION 2. ACCEPTANCE OF DRAFTS OR BILLS TO FURNISH DOLLAR EXCHANGE

"(a) Authority. (1) Any member bank, after obtaining the permission of the Board of Governors, may accept drafts or bills of exchange drawn upon it by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange (hereinafter referred to as "dollar exchange drafts or bills") as required by the usages of trade in the respective countries, dependencies, or insular possessions, subject to the conditions set forth in this section. Any member bank desiring to obtain such permission shall file with the Board of Governors through the Federal Reserve Bank of its district an application for such permission. Such application need not be in any particular form but shall show the present and anticipated need for the authority requested.

"(2) The Board of Governors may at any time rescind any permission granted by it pursuant to this section after not less than 90 days' notice in writing to the bank affected.

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"(b) Countries with respect to which dollar exchange drafts or bills may be accepted. (1) Any such foreign country or dependency or insular possession of the United States must be one of those specified in a list published by the Board of Governors for the purposes of this Regulation, with respect to which the Board of Governors has found that the usages of trade are such as to justify banks or bankers therein in drawing on member banks for the purpose of furnishing dollar exchange. Any member bank desiring to place itself in position to accept drafts or bills of exchange from a country, dependency, or insular possession not specified in such list may request the Board of Governors through the Federal Reserve Bank of its district to add such country, dependency, or insular possession to the list upon a showing that the furnishing of dollar exchange is required by the usages of trade therein.

"(2) The Board of Governors may at any time, after 90 days' published notice, remove from such list the name of any country, dependency, or insular possession, contained therein.

"(c) Purpose of transaction. (1) Any such dollar exchange draft or bill must be drawn and accepted in good faith for the purpose of furnishing dollar exchange as required by the usages of trade in the country, dependency, or insular possession in which the draft or bill is drawn. Drafts or bills drawn merely because dollar exchange is at a premium in the place where drawn or for any speculative purpose or drafts or bills commonly referred to as "finance bills" (i.e., which are not drawn primarily to furnish dollar exchange) will not be deemed to meet the requirements of this section.

"(2) The aggregate of drafts or bills accepted by such member bank for any one foreign bank or banker shall not exceed an amount which the member bank would expect such foreign bank or banker to liquidate within the terms of the agreements under which the drafts or bills were accepted, through the proceeds of export documentary bills or from other sources reasonably available to such foreign bank or banker arising in the normal course of trade.

"(d) Maturity. Such member bank shall not accept any dollar exchange draft or bill unless at the date of its acceptance it has not more than three months to run, exclusive of days of grace.

"(e) Acceptances for one bank or banker. Such member bank shall not accept dollar exchange drafts or bills for any one bank or banker in an amount exceeding in the aggregate

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10 per cent of the paid up and unimpaired capital and surplus of the accepting bank, unless it be and remain secured as to the amount in excess of such 10 per cent limitation by documents conveying or securing title or by some other adequate security.

"(f) Limitation on aggregate amount. Such member bank shall not accept dollar exchange drafts or bills in an amount exceeding at any one time in the aggregate 50 per cent of its paid up and unimpaired capital and surplus. This limitation is separate and distinct from and not included in the limitations prescribed by subsection (d) of section 1 of this Regulation with respect to acceptances of commercial drafts or bills. Dollar exchange drafts or bills accepted by another bank, whether domestic or foreign, at the request of a member bank which agrees to put such other bank in funds to meet such acceptances at maturity shall be considered as part of the acceptance liabilities of the member bank requesting such acceptances as well as of such other bank, if a member bank, within the meaning of the limitations prescribed in this section."

Upon motion by Mr. Draper, and by unanimous vote, the Regulation was adopted in the form set forth above, to become effective August 31, 1946, and the letter to the Presidents was approved.

Unanimous approval was also given to the following statement for the press for release in the morning papers of Friday, August 16, 1946:

"The Board of Governors of the Federal Reserve System has adopted, effective August 31, 1946, a revised version of Regulation C, Acceptance by Member Banks of Drafts or Bills of Exchange. The regulation governs the acceptance of drafts or bills drawn against domestic or foreign shipments of goods or secured by warehouse receipts covering readily marketable staples and the acceptance of drafts or bills drawn for the purpose of creating dollar exchange. The revision has been made in order to simplify and clarify the regulation. In making the revision, the Board has had the benefit of suggestions received from a number of member banks experienced in acceptance credit procedure and from the Federal Reserve Banks.

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"While the Board, in stating the requirements that must be met, has endeavored to lay down broad principles that should be observed, it should be emphasized that mere technical compliance with the provisions of the regulation will not necessarily afford an accepting bank protection from loss. Sound acceptance practice depends primarily upon the exercise by accepting banks of good credit judgment. The principal reliance for the maintenance of sound practices must be placed upon that judgment and the continued development of seasoned policies in this field of extension of bank credit."

Memorandum dated August 12, 1946, from Mr. Carpenter, recommending that Mr. Gordon B. Grimwood, who has been on military leave, be appointed as a Clerk in the Office of the Secretary, with basic salary at the rate of \$2,694.96 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated August 8, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the temporary appointment of Mr. Ernest J. Hopkins, an Economic Specialist in that Division, be extended for an additional period of not to exceed six months when his present 6-month appointment expires at the close of business on August 15, 1946, with salary to be continued at its present rate of \$7,341.60 per annum. The memorandum also stated that Mr. Hopkins was not now a member of the Federal Reserve retirement system and would continue to be excluded therefrom because of the nature of his appointment.

Approved unanimously.

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Memorandum dated August 12, 1946, from Mr. Leonard, Director of the Division of Examinations, submitting the resignation of Mr. Alvin C. Walters, Assistant Federal Reserve Examiner, and recommending that the resignation be accepted, effective, in accordance with his request, as of the close of business on August 12, 1946, and that proper lump sum payment be made to him for any unused annual leave remaining to his credit at that time.

Approved unanimously.

Memorandum dated August 12, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mr. J. Robert Surguy, Clerk in that Division, and recommending that the resignation be accepted, effective, in accordance with his request, at the close of business August 30, 1946, and that proper payment be made to him for any unused annual leave remaining to his credit at that time.

Approved unanimously.

Letter to Mr. Leach, Chairman of the Presidents Conference Committee on Operations, reading as follows:

"As you know, the supervision of the Washington office of the Leased Wire System is in the Division of Administrative Services, and Mr. Nelson, as Assistant Director of the Division, has been serving as associate of the Leased Wire Committee of the Presidents Conference. In view of his transfer to serve as Director of the Division of Personnel Administration, the Board is designating Mr. Bethea, Director of the Division of Administrative Services, to meet with the Leased Wire Committee. A copy of this letter is being sent to Mr. Dillard, Chairman of the Committee, and the matter is

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being brought to your attention as Chairman of the Presidents Conference Committee on Operations under which the Leased Wire Committee functions.

"Copies of this letter are also being sent to Mr. Sproul and Mr. Treiber as Chairman and Secretary, respectively, of the Presidents Conference."

Approved unanimously.

Letter to the directors of the "Farmers & Merchants Bank, 'Inc.'", Brewton, Alabama, stating that, subject to conditions of membership numbered 1 to 3 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 Atlanta.

Approved unanimously, together with the following letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta:

"The Board of Governors of the Federal Reserve System approves the application of the "Farmers & Merchants Bank, 'Inc.', Brewton, Alabama, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Alabama, for her information.

"It is assumed that you will follow the matter of correction of operating procedure with respect to separation of teller's cash and the posting of ledgers by persons acting as tellers."

Letter to Mr. Fulton, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

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"Receipt is acknowledged of your letter of July 30, 1946, transmitting the application of The Union Bank of Commerce Company, Cleveland, Ohio, for permission to exercise trust functions under the terms of its charter and of State law, and to deposit trust funds with the banking department without security.

"When the application for membership in the Federal Reserve System of this bank (then in process of organization) was under consideration here in 1937, it was indicated that the bank's sponsors felt that it should have trust powers in the event that they found it necessary and desirable to exercise them at some later date. Accordingly, the Board prescribed and the bank accepted trust conditions, and the Reserve Bank was authorized to waive compliance until further notice with the condition requiring the pledge of security for trust funds deposited in the bank's commercial or savings departments, because of the statutory preference afforded such funds under State law.

"In view of the foregoing, The Union Bank of Commerce Company has authority to operate a trust department without any further action on the part of the Board of Governors, and you are requested to advise the bank to that effect. It is assumed that the Reserve Bank will issue its waiver of compliance with the bank's condition of membership referred to above if this has not already been done."

Approved unanimously.

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

"This refers to your letter of July 30, 1946, and Mr. Peterson's letter of July 18, 1946, together with the memoranda of your Counsel enclosed therewith, with respect to the practice of the United Bank and Trust Company, St. Louis, Missouri, and of other banks in your district in absorbing for their correspondent banks the costs of shipments of currency and coin made by the Federal Reserve Bank.

"You state that the question has been raised as to whether your bank should continue its present practice of making money shipments to nonmember banks at the request of your member banks, in view of the fact that these shipments give rise to the absorption of the costs by the member banks in possible violation of Regulation Q. It is noted that no action has been taken in the matter since

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you feel that if the practice of commercial banks in absorbing the costs of these shipments is to be stopped by one of the methods proposed in Mr. Carstarphen's memorandum it would be much better if all Federal Reserve Banks adopted the same procedure.

"The Board agrees with you that the matter is one on which uniformity of action by the Federal Reserve Banks is desirable and, in order that the matter may be considered by all of the Reserve Banks, it is believed that it would be advisable to place it on the program for the next meeting of the Conference of Presidents. In the circumstances, we assume that you will wish to take the necessary steps that this is done."

Approved unanimously.

Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of July 31, 1946, regarding a question presented by Sutro & Co., San Francisco, California, a brokerage firm subject to Regulation T.

"It appears that a customer has a general account with Sutro & Co., and is unable to withdraw cash or securities from the account under the present provisions of the regulation. The firm wishes to know whether it may make loans to the customer for living expenses. It is indicated that the funds loaned would not be used for purchasing or carrying or trading in securities, and that the customer would give a declaration of purpose to that effect pursuant to section 7(c) of the regulation.

"It is true that section 4(f)(8) provides that in a special miscellaneous account a broker may extend or maintain credit that is not for the purpose of purchasing or carrying or trading in securities. However, this special account, like all others, is subject to the requirements of section 4(a), which among other things provides that:

'If a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account.'

"This, of course, means that the special account must be margined, without regard to any securities in the general account, to the same extent that the brokerage firm would require it to be if the customer had no general ac-

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For example, rules of securities exchanges often require that accounts carried by their members for customers be margined according to certain minimum standards. The firm naturally would follow such requirements for the special account if there were no general account; and, similarly, it must follow them here without regard to any collateral that may happen to be held in a general account.

"Some of the facts involved are not entirely clear, but it seems questionable that the plan here proposed would comply with these requirements of section 4(a)."

Approved unanimously.

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

"Thank you for your letter of July 19, 1946, regarding the investigations of Shapiro Bros., Co., Inc., Oswego, New York, under Regulation W.

"It is noted that although you do not consider immediate action necessary, you believe that definite action of some kind should be taken if your next investigation of this registrant discloses further violations of the regulation."

Approved unanimously.

Letter to Mr. Harold Judson, Assistant Solicitor General, Department of Justice, Washington, D. C., reading as follows:

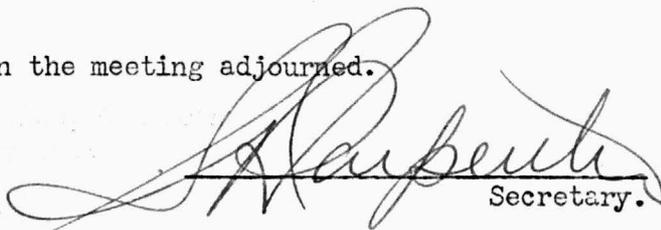
"This refers to the letter addressed by the Attorney General to Chairman Eccles, dated March 7, 1946, and to your letter addressed to Mr. Vest, dated April 17, 1946, regarding proposals for a new Federal-State program of suggested State legislation for 1947.

"We have made a careful canvass of the situation and the Board of Governors of the Federal Reserve System has reached the conclusion that there are no proposals for State legislation which it cares to submit on behalf of the Federal Reserve System at this time for inclusion in the program of State legislation of the Council of State Governments for 1947."

Approved unanimously.

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Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.