

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 13, 1946, at 10:40 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Draper
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Kennedy, Special Assistant to the
Chairman
Mr. Smead, Director of the Division of
Bank Operations
Mr. Parry, Director of the Division of
Security Loans
Mr. Thomas, Director of the Division of
Research and Statistics
Mr. Townsend, Assistant General Counsel

Telegrams relating to the schedules of rates of discount and purchase at the respective Federal Reserve Banks referred to were approved unanimously as follows:

1. Telegrams to Mr. Whittemore, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Stewart, Vice President of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, 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 Bank of San Francisco on September 10, by the Federal Reserve Bank of St. Louis on September 11, by the Federal Reserve Banks of New York, Cleveland, Minneapolis, and Kansas City on September 12, 1946, and by the Federal Reserve Banks of Boston and Chicago today, of the rates of discount and purchase in their existing schedules.

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2. Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, stating that the Board approves for the Bank, effective September 14, 1946, a minimum buying rate of one per cent for the purchase of bankers' acceptances, and the establishment by the Bank without change of the other rates of discount and purchase in its existing schedule.

3. Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that the Board approves for the Bank, effective September 14, 1946, a minimum buying rate of one per cent for the purchase of bankers' acceptances for all maturities, and the establishment by the Bank without change of the other rates of discount and purchase in its existing schedule.

In connection with the above actions on rates, it was stated that Counsel for the Board was of the opinion that there should be published in the Federal Register, pursuant to the provisions of the Administrative Procedure Act which became effective on September 11, 1946, a statement of the rates established by the Federal Reserve Banks and approved by the Board of Governors following the effective date of such provisions, and of the reasons why notice of such action or public participation was not given and why the effective dates of the rates were not deferred for thirty days. Counsel agreed, however, that the publication of the statement could be deferred until after action by the Board next week on the rates of discount and purchase established by the Federal Reserve Banks of Philadelphia and Atlanta.

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Thereupon, the following statement was approved unanimously for submission to the Federal Register on September 20, the rates established by the Federal Reserve Banks of Philadelphia and Atlanta to be included in the statement as approved by the Board:

"TITLE 12 - BANKS AND BANKING

"CHAPTER II - FEDERAL RESERVE SYSTEM

"SUBCHAPTER A - BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

"PART 224 - DISCOUNT RATES

"Sec. 224.1. Introduction. - The following are the rates to be charged by the Federal Reserve Banks as established by such Banks and as reviewed and determined by the Board of Governors of the Federal Reserve System, pursuant to the provisions of section 14(d) of the Federal Reserve Act. All rates are stated in per cent per annum. Except as otherwise provided, these rates are effective immediately.

"Sec. 224.2. Advances and Discounts for Member Banks under Sections 13 and 13a. - The rates for all advances and discounts under sections 13 and 13a of the Federal Reserve Act (except advances under the last paragraph of such section 13 to individuals, partnerships or corporations other than member banks) are:

<u>Federal Reserve Bank of</u>	<u>Rate</u>	<u>Effective</u>
Boston	1	April 27, 1946
New York	1	April 25, 1946
Philadelphia		
Cleveland	1	May 3, 1946
Richmond	1	May 10, 1946
Atlanta		
Chicago	1	April 26, 1946
St. Louis	1	April 26, 1946

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<u>Federal Reserve Bank of</u>	<u>Rate</u>	<u>Effective</u>
Minneapolis	1	April 26, 1946
Kansas City	1	April 27, 1946
Dallas	1	May 10, 1946
San Francisco	1	April 25, 1946

"Sec. 224.3. Advances to Member Banks Under Section 10(b). - The rates for advances to member banks under section 10(b) of the Federal Reserve Act are:

<u>Federal Reserve Bank of</u>	<u>Rate</u>	<u>Effective</u>
Boston	1-1/2	October 27, 1942
New York	1-1/2	October 30, 1942
Philadelphia		
Cleveland	1-1/2	September 12, 1942
Richmond	1-1/2	October 28, 1942
Atlanta		
Chicago	1-1/2	August 29, 1942
St. Louis	1-1/2	March 14, 1942
Minneapolis	1-1/2	October 30, 1942
Kansas City	1-1/2	October 27, 1942
Dallas	1-1/2	October 17, 1942
San Francisco	1-1/2	October 28, 1942

"Sec. 224.4. Advances to Persons Other than Member Banks.
- The rates for advances to individuals, partnerships or corporations other than member banks secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act are:

<u>Federal Reserve Bank of</u>	<u>Rate</u>	<u>Effective</u>
Boston	2	March 29, 1946
New York	2-1/2	April 6, 1946
Philadelphia		
Cleveland	2	March 9, 1946
Richmond	2-1/2	March 16, 1946
Atlanta		
Chicago	2	March 16, 1946
St. Louis	2	March 16, 1946
Minneapolis	2	March 23, 1946
Kansas City	2	April 13, 1946
Dallas	2	March 16, 1946
San Francisco	2-1/2	April 25, 1946

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"Sec. 224.5. Buying Rates on Bills. - The buying rates on bills are:

Federal Reserve Bank of	Rate for Treasury Bills	Effective	Minimum Rate for Prime Bankers' Acceptances. ^{1/}	Effective
Boston	3/8	April 30, 1942	1	August 30, 1946
New York	3/8	April 30, 1942	1	August 24, 1946
Philadelphia				
Cleveland	3/8	April 30, 1942	1	September 7, 1946
Richmond	3/8	April 30, 1942	1	September 14, 1946
Atlanta				
Chicago	3/8	April 30, 1942	1	August 31, 1946
St. Louis	3/8	April 30, 1942	1	August 29, 1946
Minneapolis	3/8	April 30, 1942	1	August 24, 1946
Kansas City	3/8	April 30, 1942	1	September 4, 1946
Dallas	3/8	April 30, 1942	1	September 14, 1946
San Francisco	3/8	April 30, 1942	1	September 7, 1946

"Sec. 224.6. Rates to Industrial or Commercial Businesses under Section 13b. - The rates to industrial and commercial businesses (including loans made in participation with financial institutions) under section 13b of the Federal Reserve Act are:

Federal Reserve Bank of	On Loans	On Commitments	Effective
Boston	2-1/2 - 5	1/2 - 1	May 29, 1942
New York	2-1/2 - 5	1/2 - 1-1/4	June 6, 1942
Philadelphia			
Cleveland	2-1/2 - 5	1/2 - 1-1/4	May 8, 1942
Richmond	2-1/2 - 5	1/2 - 1-1/4	May 23, 1942
Atlanta			
Chicago	2-1/2 - 5	1/4 - 1-1/4	October 5, 1944
St. Louis	2-1/2 - 5	1/2 - 1-1/4	May 16, 1942
Minneapolis	2-1/2 - 5	1/2 - 1-1/4	May 16, 1942
Kansas City	2-1/2 - 5	1/2 - 1-1/4	June 6, 1942
Dallas	2-1/2 - 5	1/2 - 1-1/4	May 16, 1942
San Francisco	2-1/2 - 5	1/2 - 1-1/4	May 23, 1942

^{1/} Rate also applies to trade acceptances at Federal Reserve Bank of New York.

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"Sec. 224.7. Rates to Financing Institutions under Section 13b. - The rates to financing institutions under section 13b of the Federal Reserve Act are:

Federal Reserve Bank of	On Discounts or Purchases		On Commitments	Effective
	Portion for which institution is obligated.	Remaining portion.		
Boston	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{1}{2} - 1$	May 29, 1942
New York	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{1}{2} - 1 - \frac{1}{4}$	June 6, 1942
Philadelphia	$\frac{3}{4}$			
Cleveland	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{5}{1} \frac{1}{2} - 1 - \frac{1}{4}$	May 8, 1942
Richmond	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{1}{2} - 1 - \frac{1}{4}$	May 23, 1942
Atlanta				
Chicago	$2 - \frac{1}{2} - 5$	$2 - \frac{1}{2} - 5$	$\frac{1}{4} - 1 - \frac{1}{4}$	October 5, 1944
St. Louis	$1 - \frac{1}{2}$	$\frac{4}{4}$	$\frac{1}{4} - 1 - \frac{1}{4}$	May 16, 1942
Minneapolis	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{1}{2} - 1 - \frac{1}{4}$	May 16, 1942
Kansas City	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{1}{2} - 1 - \frac{1}{4}$	June 6, 1942
Dallas	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{5}{1} \frac{1}{2} - 1 - \frac{1}{4}$	May 16, 1942
San Francisco	$\frac{2}{4}$	$\frac{4}{4}$	$\frac{5}{1} \frac{1}{2} - 1 - \frac{1}{4}$	May 23, 1942

"Sec. 224.8. Findings. -

"(a) No Notice or Public Participation; Rates Effective Immediately. - There is no notice or public participation when rates now or hereafter specified in this Part are reviewed and determined. The Board of Governors of the Federal Reserve System finds that in this situation such notice and public participation are impracticable, unnecessary, and contrary to the public interest for the reasons stated in section 2(e) of the Board's Rules of Procedure (Section 262.2(e) of Part 262), and especially because such procedure would prevent the action from becoming effective as promptly as necessary, would permit unfair profits, would interfere with the Board's actions, would not aid the persons affected, and would otherwise serve no useful purpose. For the same reasons and good cause found, the effective dates of these rates, as now or hereafter reviewed and determined, are not deferred for 30 days; and except as otherwise provided, such rates are effective immediately.

$\frac{2}{4}$ Rate charged borrower less commitment rate.

$\frac{3}{4}$ Rate charged borrower, but not exceeding 1 per cent above rate under Section 224.2 of this Part (footnote anticipated when rates approved for Federal Reserve Bank of Philadelphia).

$\frac{4}{4}$ Rate charged borrower.

$\frac{5}{4}$ $\frac{1}{4}$ per cent on undisbursed portion of loan.

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"(b) Only Changes in Rates Published. - Under section 14(d) of the Federal Reserve Act, rates must be established at each Federal Reserve Bank every fourteen days, or oftener if deemed necessary by the Board of Governors of the Federal Reserve System. To avoid frequent and unnecessary publication of the fact that an existing rate is continued, only changes in rates will be published; and the fact that no new rate is published means that the existing rate has been continued.

"Sec. 14(d), 38 Stat. 264 as amended by 41 Stat. 550, 42 Stat. 1480 and 49 Stat. 704, 706; 12 U.S.C. 357.

"BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

S. R. Carpenter,
Secretary.

"Certified to be a true copy of the original.

S. R. Carpenter,
Secretary."

There was then presented a memorandum dated September 10, 1946, from Mr. Van Fossen, Assistant Director of the Division of Bank Operations, prepared in accordance with the action taken at the meeting of the Board on August 20, 1946, with respect to expenses allowed by the Federal Reserve Banks in connection with official travel. The memorandum stated that there was little recent data available in the Board's files on this matter, but that it was understood that while complete uniformity did not prevail in the Reserve Banks, it was the general practice to make reimbursement for actual expenses of official

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travel, and that no bank paid a per diem allowance in lieu of subsistence, although one and possibly others paid its examiners a fixed amount plus reimbursement for hotel and transportation. The memorandum also stated that in reviewing expenses of the Reserve Banks, the Board's examiners look into travel expenses and take note of cases of extravagant or unusual expenditures.

There was a discussion of the Board's responsibility with respect to the expenditures of the Federal Reserve Banks for official travel and of the question whether further information should be obtained from the Banks as to their present practices and whether the matter should be placed on the agenda for discussion in the forthcoming meeting of the Presidents' Conference.

At the conclusion of the discussion, upon motion by Mr. Vardaman, it was agreed that the Board's Division of Examinations would be requested to include in the report of the next examination of each of the Federal Reserve Banks a full statement of the per diem and other allowances authorized by the Banks in connection with official travel.

With Mr. Van Fossen's memorandum there was also submitted a draft of letter to Mr. Sproul, Chairman of the Conference of Presidents, prepared in accordance with the action taken at the meeting of the Board on August 20, 1946, and reading as follows:

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"At a recent meeting of the Board of Governors, there was a discussion of the policy followed by the Board and by the Federal Reserve Banks with respect to payments for official luncheons, dinners, etc., and it was suggested that the subject be placed on the agenda for the next Conference of Presidents.

"It will, accordingly, be appreciated if you will have placed upon the program for the forthcoming Presidents' Conference the subject of expenditures for luncheons, dinners, etc., including entertainment of bankers and others not in the Bank's employ, with reference especially to whether a uniform policy with respect thereto should be adopted."

In a discussion of the policies of the various Federal Reserve Banks with respect to the payment of the cost of official dinners and luncheons, reference was made to recent telephone calls received by Messrs. Morrill and Carpenter from President Clerk of the Federal Reserve Bank of San Francisco in which he stated that the question had come up in his district as to the extent to which the Federal Reserve Banks would pay the cost of dinners arranged by the Treasury for the promotion of the savings bond campaign, that he had been invited to attend the savings bond meeting being arranged by the Treasury for September 18 and 19, 1946, and that while he would not be able to be present it was his feeling that before commitments were made by all of the Federal Reserve Banks there should be a discussion of what the System policy should be so that the Banks would not be obligated for a substantial expenditure without the matter having been considered from the standpoint of the System as a whole. He did not ask during the conversations for any action by the Board on the matter at this time,

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but expressed the feeling that, since it appeared from his conversations with the Presidents of some of the other Federal Reserve Banks that they were making commitments and that the chairmen of the savings bond committees in the various districts would be very much interested in knowing to what extent expenditures of this kind would be paid by the Federal Reserve Banks, there should be discussion at the appropriate time as to what the System policy should be.

Following the conversations with Mr. Clerk, the matter had been discussed informally with Mr. Draper and it was felt that if the question should come up at the Treasury meeting on September 18-19, 1946, it could be stated that the question was on the docket for discussion at the forthcoming Presidents' Conference and would be given consideration at that time. It was the consensus during the discussion that the System had a direct and real interest in the success of the Treasury savings bond campaign and that the System would be entirely justified in lending reasonable support to it.

At the conclusion of the discussion, the proposed letter to Mr. Sproul was approved unanimously.

At Mr. Vardaman's request, there had been placed on the docket for discussion at this meeting the question whether the Board should place on the agenda for the forthcoming Conference of Presidents a discussion of Regulations T and U, and it was agreed unanimously that the following letter should be sent to Mr. Sproul as Chairman of the Presidents' Conference:

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"The Board of Governors will appreciate it if you will have added to the agenda for the forthcoming Conference of Presidents a discussion of the administration and enforcement of Regulation U and the observations of the Presidents of the administration and enforcement of Regulation T."

Mr. Vardaman stated that as he understood it, the Board's authority with respect to the regulation of consumer credit was derived from an executive order issued by the President, and he questioned whether the Board should take any steps to have that authority made a permanent part of the law without having first taken the matter up with the President.

In a discussion, it was stated that while the Board had included in its annual report for 1945 a recommendation that legislation be considered which would authorize and direct the Federal Reserve System to continue the regulation of consumer credit on a permanent basis and as an integral part of the System's function of maintaining sound credit conditions, no draft of bill had been submitted or other steps taken to bring about the enactment of specific legislation.

It was unanimously agreed by the members of the Board present that no steps should be taken by the Board looking to the introduction of specific legislation regarding regulation by the Board of consumer credit without first taking the matter up with the President.

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At this point Messrs. Kennedy, Smead, Parry, Thomas, and Townsend withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated September 11, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Louise L. Clark, a clerk in that Division, and recommending that it be accepted to become effective, in accordance with her request, at the close of business September 11, 1946, with the understanding that a lump sum payment be made for any annual leave remaining to her credit as of that date.

Approved unanimously.

Memorandum dated September 10, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Miss Blanche D. Fauteux, a clerk in that Division, and recommending that it be accepted to become effective, in accordance with her request, at the close of business September 18, 1946, with the understanding that a lump sum payment be made for any annual leave remaining to her credit as of that date.

Approved unanimously.

Memorandum dated September 10, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mrs. Ann B. Frey be appointed as a clerk-typist in that Division on a temporary indefinite basis, with basic salary at the rate of \$2,168.28 per annum,

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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 Mrs. Frey would become a member of the Federal Reserve Retirement System unless she has funds in the Civil Service Retirement System from her previous Government service.

Approved unanimously.

Letter to the Board of Directors of the "Security State Bank", Weatherford, Oklahoma, 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 Kansas City.

Approved unanimously, together with a letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Security State Bank', Weatherford, Oklahoma, 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 Bank Commissioner for the State of Oklahoma for his information.

"It has been noted that the bank has agreed to charge off the estimated loss of \$2,500 promptly upon approval of its application for membership. In accordance with your recommendation and with the understanding that you will satisfy yourself that the elimination of such loss is accomplished prior to admission of the bank to membership,

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"the usual condition requiring elimination of losses has not been prescribed.

"It has been noted also that the bank has agreed to a program in connection with: (1) the charge-off of the remainder of the premium paid to the liquidator of the Liberty National Bank, and (2) depreciation of fixed assets. It is assumed, of course, that these matters will be followed to a conclusion by your office. The application has been approved with that understanding."

Letter to the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"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 State Bank of Chrisman, Chrisman, Illinois, became a member of the Federal Reserve System on September 6, 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 Honorable P. L. Goldsborough, Director, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

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"In accordance with the request contained in your letter of September 6, 1946, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the 'Security State Bank', Keota, Iowa, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"The bank was last examined by examiners for the Federal Reserve Bank of Chicago in August of this year but a copy of the report has not been received by the Board. On the basis of the report of examination as of October 3, 1945, there are no unfulfilled conditions nor incomplete corrective programs with respect to the member bank in connection with which the Board would suggest incorporation of conditions for continuing its status as an insured bank.

"The Board was advised recently that control of the subject bank had been acquired by Messrs. Harris E. Long and W. K. Bramwell of Eldora, Iowa. This information was transmitted to your Division of Examination on August 5, 1946. It was understood, also, that the number of the bank's directors had been reduced below the minimum required for a member bank under the provisions of Section 31 of the Banking Act of 1933 and the Board has not been advised of corrective action in this respect."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letters of August 30 and September 7, 1946, regarding additional expenditures for the improvements on the Helena Branch building above the \$74,031.60 outlined in your letter of July 18, and approved by the Board August 19.

"In view of the circumstances outlined in your letters and the enclosures thereto, the Board approves the additional expenditure of \$714.25 on the elevator contract and \$192.00 on the contract with the Carson Construction Company."

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Approved unanimously.

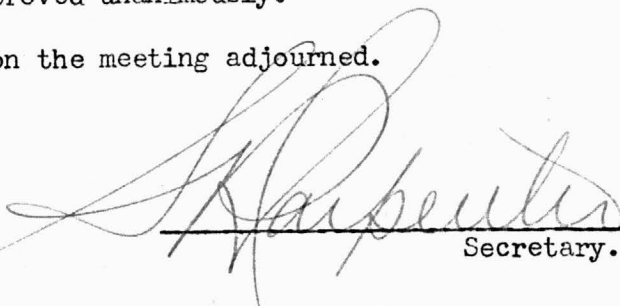
Letter to Mr. John D. Clark, Council of Economic Advisers,
Executive Office of the President, Washington, D. C., reading as
follows:

"I have brought to the attention of the members of the Board of Governors your letter of September 5, submitting your resignation as a Director of the Omaha Branch of the Federal Reserve Bank of Kansas City, and it is with sincere regret that the Board accepts your resignation.

"Your interest in and contribution to the Federal Reserve System during the period of your service as a Director of the Omaha Branch are indeed appreciated and the Board trusts that your interest will continue after the termination of your official connection with the System."

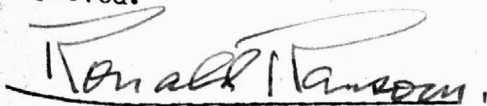
Approved unanimously.

Thereupon the meeting adjourned.



Secretary.

Approved:



Vice Chairman.