

10/15/46 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 15, 1946, at 11:05 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Van Fossen, Assistant Director of the Division of Bank Operations
Mr. Townsend, Assistant General Counsel

Mr. Vardaman referred to the recent informal discussions of the problem presented to the Board in situations such as that existing in Alexandria, Louisiana, where the Rapides Bank and Trust Company of that city was suffering a serious competitive disadvantage because of its inability under the provisions of the Board's Regulation Q, Payment of Interest on Deposits, to absorb exchange and collection charges, and the Guaranty Bank and Trust Company, a nonmember insured bank located in the same city, was attracting a considerable volume of deposits by absorbing such charges. He said that he would like the Board to consider what, if any, action could be taken by it or by the Federal Reserve Bank of Atlanta to deny the use of any of the facilities of the Federal Reserve Bank, including check collection facilities, to the nonmember bank as long as it continued its present

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practices in this regard. It was Mr. Vardaman's thought that if possible the nonmember bank might be removed from the Federal Reserve par list so that it could not have the advantage of the Federal Reserve clearing and collection system.

There was a general discussion of the steps that might be available to the Board in the light of the applicable provisions of law and the Board's Regulation J, Check Clearing and Collection, the purposes served by the par list, and the possible effects of the removal of the Guaranty Bank and Trust Company from the list.

All of the members of the Board were in agreement that some solution of the problem should be found, and Mr. Vardaman stated that he would call Mr. McLarin, President of the Federal Reserve Bank of Atlanta, on the telephone and suggest that he give consideration to sending to the Rapides Bank and Trust Company, rather than directly to the Guaranty Bank and Trust Company, checks drawn on the latter bank, and that he ask the Presidents' Conference Committee on Collections to consider the problem and submit a recommendation as to the action that might be taken to correct the present unfair competitive position in which the Rapides Bank and other member banks in similar situations were placed by the absorption of exchange and collection charges by nonmember banks.

Mr. Vardaman referred to a proposed letter to Mr. Young, President of the Federal Reserve Bank of Chicago, which would state

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that the Board would interpose no objection to the employment of an architect to prepare preliminary plans for an addition of four stories to the Head Office building of that Bank, with the understanding that before any contract was entered into for completion of detailed plans and specifications, the preliminary plans would be submitted to the Board for consideration. Mr. Vardaman stated that while he was in Chicago recently the question came up whether the cost of preliminary plans for a Federal Reserve branch building that might exceed the limit of \$250,000 provided in the law on the amount that may be spent for branch buildings without the specific approval of Congress, must be considered as part of the construction cost, which would require such approval. He said he had taken the position that the preliminary plans were nothing more than an undertaking to survey the bank's building needs and were not a part of the construction costs subject to Congressional approval. Mr. Vest read the applicable provisions of the Federal Reserve Act and stated that it provided that no Federal Reserve Bank shall have authority to enter into a contract for the construction of a branch building which would cost in excess of \$250,000, and therefore the question of a violation of the law could not arise until a contract for construction had been made. There was agreement by the members of the Board with the position which Mr. Vardaman had taken, and that a Federal Reserve Bank was not limited by the statute in the employment of an architect to prepare preliminary

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plans. In connection with the above matter, reference was made to the present policy of the Board with respect to the preparation of building plans as set forth in its letter of September 14, 1945, S-871, to all Federal Reserve Banks which stated that it was desirable for the Banks to proceed with preliminary plans for the provision of such additional space as appeared to be necessary on the basis of the probable future volume of Federal Reserve Bank operations so that construction work could be commenced without delay when conditions permit, and there was a discussion of whether there should be any change made in the letter.

Chairman Eccles said that the Banks might be advised that when entering into an agreement for preliminary plans the contract should be so drawn that no commitment would be made to employ the same architect for preparation of final plans and specifications. Mr. Vardaman suggested that the Banks should also advise the Board of any plans for substantial purchases of new vaults and other permanent equipment.

It was unanimously agreed (1) that the staff would review the letter of September 14, 1945, in the light of this discussion and, if thought necessary, prepare for consideration by the Board a further letter to the Federal Reserve Banks which would make it clear that the banks were authorized to prepare preliminary plans and specifications for buildings, including vaults and fixed equipment, but that they would

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not go beyond that point without the approval of the Board, and (2) that a letter would be sent to President Young interposing no objection to the employment of an architect to prepare preliminary plans for the proposed addition to the Head Office building on the assumption that any such agreement would provide that the Bank would not be obligated to retain the architect for any work beyond the preparation of preliminary plans, but that if he were retained the payment for such preliminary work would be taken into account in the final fee.

Mr. Young, Assistant Director of the Division of Research and Statistics, joined the meeting at this point.

Mr. Thomas presented and the Secretary read a memorandum prepared by Messrs. Thomas and Young under date of October 15, 1946, summarizing the results of a canvass of Federal Reserve Banks and others as to the timing for conducting the surveys of commercial, industrial, and farm loans, discussed at the meeting of the Board on October 11, 1946. Mr. Thomas stated that the Reserve Banks generally favored the making of the survey of commercial loans as of November 18, 1946, but that a majority preferred postponing the survey of farm loans until next spring. He also said that the Chairman of the Credit Policy Committee of the Association of Reserve City Bankers had suggested November 30, 1946, as a date for both surveys, that representatives of the American Bankers Association had stated that it was not in a position to endorse the proposed surveys although it did not oppose them, that the U. S. Department of Agriculture, the U. S.

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Department of Commerce, and the National Bureau of Economic Research preferred making the surveys this fall in order to have the data available as soon as possible, and that the FDIC had not officially taken a position as to whether it would cooperate in the surveys. Mr. Thomas added that Mr. Evans had been informed by telephone of the replies that had been received and had said he would like to have the surveys made as proposed.

Mr. Vardaman stated that based on informal inquiries which he made on his recent visits to Chicago, Minneapolis, St. Louis, Oklahoma City, Memphis, Little Rock, and other points, and which indicated strong objection to the farm loan survey at this time, and in view of opposition at several of the Federal Reserve Banks, he felt that the Board should consider postponing the farm loan survey until next spring. This point was discussed and it was suggested that action be taken to approve the industrial and commercial loan survey as proposed, and a decision on the agricultural loan survey held for consideration at the meeting of the Board on Tuesday, October 22, 1946, when Mr. Evans would be present.

Mr. Vardaman moved that the Board authorize the making of the survey of commercial loans as of a date during the latter part of November, and that a decision on the timing of the survey of farm loans be postponed until Tuesday of next week when Mr. Evans would have returned. In making this motion,

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Mr. Vardaman stated that he favored the surveys in principle and while he would be out of the city next Tuesday, if, after considering all of the circumstances involved, including the views of the Federal Reserve Banks, the Board felt that the farm loan survey should be made as proposed, he would concur in the Board's decision.

Approved unanimously.

At this point, Messrs. Thomas, Vest, Leonard, Van Fossen, Young and Townsend 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 October 14, 1946, were approved unanimously.

Memorandum dated October 10, 1946, from Mr. Carpenter, recommending an additional leave without pay for six months, beginning October 21, 1946, for Miss Helen A. Haltigan, a file clerk in the Office of the Secretary, with the understanding that she will return to work at an earlier date if conditions permit her to do so. The memorandum also stated that Miss Haltigan is a contributing member to the Civil Service Retirement and Disability Fund.

Approved unanimously.

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Memorandum dated October 11, 1946, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the following increases in basic salaries for employees in that Division be approved, effective October 20, 1946:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Phyllis E. Stewart	Secretary to Mr. Nelson	\$3,397.20	\$3,648.00
Ruth A. Westergren	Personnel Clerk	3,773.40	4,024.20
Margaret C. Huffman	Clerk-Stenographer	2,694.96	2,845.44
Benjamin R. Reading	Leave Clerk	2,394.00	2,469.24

Approved unanimously.

Letter to "The Adams Bank", Millersburg, Ohio, and the "Gruver State Bank", Gruver, Texas, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

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

"Relet October 3. In view your recommendation Board approves establishment and operation of branch in Walnut Creek, California, by American Trust Company, San Francisco, California, provided such branch is established within six months from September 18, 1946, as required by State authorities and with understanding that Counsel for Reserve Bank will review and satisfy himself as to legality of all steps taken to establish branch."

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Approved unanimously. In connection with the above matter, the Board approved the recommendation contained in a memorandum dated October 10, 1946, from Mr. Sloan, Federal Reserve Examiner, that, in connection with the approval of so-called "de novo" branches, the Board's approval be conditioned (1) upon establishment of the proposed branch within such time limits as may have been imposed by State authorities if such limits are known and considered reasonable, or (2) upon establishment of the proposed branch within six months of the date of approval if no time limit has been imposed by State authorities or such limit is unknown, unless unusual conditions appear to justify a longer term or no time limitation.

Letter to the Honorable Walter F. George, United States Senate, Washington, D. C., reading as follows:

"This letter is in response to yours of September 25, with which you enclosed a letter from Mr. D. D. Webb, Healy Building, Atlanta 3, Georgia, in which Mr. Webb suggests that Regulation W, relating to consumer credit, be discontinued. Mr. Webb is under the impression that with the termination of the war the need for the regulation is past and that in its present form it operates to discriminate against individuals in the lower income groups.

"With respect to the first point, the purpose served by the regulation at the present time is well indicated by the following excerpt from the July 1, 1946 report of the Director of War Mobilization and Reconversion:

'Inflationary pressure is exerted, not only by expenditures out of current income or out of accumulated savings, but also by the extension of credit, which augments total purchasing power. For this reason, it is important for the protection of consumers themselves that controls over the extension of consumer credit be continued and rigidly enforced.'

"As to the second point, the purpose of the regulation is to induce people to refrain from trying to buy as much as they would like, and certainly some of these individuals will

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"be people who have low incomes and little or no savings. We do not believe that this is contrary to the interests of the latter group. No one is more concerned with the maintenance of economic stability than individuals with low incomes, for the reason that they are injured more by inflation and deflation than any other group. Furthermore, at a time like the present when prices are high and goods on sale are of lower quality than will be available later on, it would be a distinct disservice to encourage people with limited incomes to obligate themselves for high payments over a long period of time."

Approved unanimously.

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

"Referring to your October 3 letter, it would appear that the purpose of the September 24 visit of Customs Comptroller men at the Cincinnati Branch was, in effect, nothing more than a verification of a deposit balance.

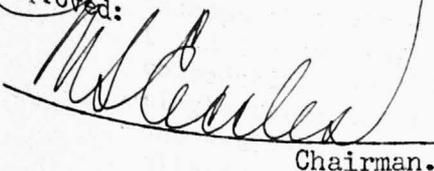
"It is unnecessary to furnish information to the Board in regard to visits to the Federal Reserve Banks and Branches by representatives of Government departments, agencies, and corporations for such purposes."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.