

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 12, 1946. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Parry, Director of the Division of Security Loans
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Townsend, Assistant General Counsel

As stated in the minutes of October 30, 1946, Mr. Vardaman was absent on official business.

Mr. Ransom stated that yesterday he received a telephone call from Mr. Vardaman from San Francisco in which the latter expressed the hope that the Board, in its consideration of amendments to Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, would feel inclined to eliminate margin requirements, and, in its consideration of amendments to Regulation W, Consumer Credit, would provide that no credit for the purchase of articles selling for less than \$100 would be subject to the Regulation, and that the maximum maturity of credits for the purchase of automobiles would be 24 months.

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Mr. Ransom also said that he told Mr. Vardaman that he did not agree with the suggestions but that he would submit them to the Board in accordance with Mr. Vardaman's wishes.

There was a discussion of the conditions under which the Board would be justified in reducing margin requirements and it was agreed unanimously that a change in the existing 100 per cent margin requirements was not justified at this time.

With respect to the amendment of Regulation W, Chairman Eccles stated that he would like to have a discussion at the Board meeting on Friday, November 15, of the proposed simplification of the Regulation. He said that he had received a letter from Mr. Donald Gordon, who was in charge of the administration of consumer credit in Canada, in which it was stated that because of the repeal of price controls in that country consumer credit controls, which had been regarded as an adjunct to price controls, were also being discontinued. He made the further statement that in view of the discontinuance of practically all price controls in this country, he had been considering whether it would be desirable to act this week to amend the Regulation, effective as of December 1, and whether the changes made should differ from those previously discussed, and that he had discussed these matters with Messrs. Ransom, Morrill, Thurston, Parry, and Vest in a conference on November 8.

In a discussion, it was stated that a draft of a revision of the Regulation was being prepared in accordance with the discussion

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at the conference referred to by Chairman Eccles and it was agreed that the draft would be considered at the meeting on November 15.

Mr. Draper stated that, in accordance with earlier discussions and particularly the discussion at the meeting of the Board on November 1, 1946, proposed amendments to Regulations T and U, together with a draft of a press release and a statement of findings for publication in the Federal Register in accordance with the requirements of the Administrative Procedure Act, had been prepared and distributed to Board members for consideration. The memorandum from Mr. Parry submitting the amendments was dated November 8, 1946. The purpose of the amendments was to permit the extension of credit in connection with the exercise of rights issued by corporations to stockholders to subscribe to new issues of stock.

Mr. Ransom stated that the amendment and press statement did not make it clear that credit could be obtained for the full amount of the stock purchased under such rights. Chairman Eccles said that the press release should state clearly the scope of the amendments and should emphasize that, except for the extension of credit for the exercise of rights, the prevailing 100 per cent margin requirement remained in effect. There was a discussion of the wording of the proposed amendments and of the press release and whether the amendments should be made effective before, after, or on the same date that the proposed streamlining of Regulation W was put into effect.

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At the conclusion of the discussion, upon motion by Mr. Draper, it was agreed that action on the amendments should be taken at this meeting, and they were approved unanimously in the following form, to become effective December 1, 1946, with the understanding that they would be wired to the Federal Reserve Banks with the request that they print the amendments and distribute them to interested persons in their respective districts. Unanimous approval was also given to the following revised statement for release in the morning papers of Wednesday, November 13, 1946, and statement for publication in the Federal Register in compliance with the provisions of the Administrative Procedure Act:

"AMENDMENT NO. 6 TO REGULATION T

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

"Effective December 1, 1946, Regulation T is hereby amended by adding the following new subsection at the end of section 6 thereof:

"(1) Subscriptions. - Notwithstanding any other provision of this regulation, a creditor may effect and finance the acquisition of a registered security for a customer in a general account through the exercise of a right to acquire such security which is evidenced by a warrant or certificate expiring within 90 days of issuance, provided (1) such right was originally issued to the customer as a stockholder of the corporation issuing the registered security or as a stockholder of a company distributing the registered security in order to effectuate the provisions of section 11 of the Public Utility Holding Company Act of 1935, and (2) the creditor shall obtain a deposit prior to the initiation of the transaction in such amount that the cash deposited plus the maximum loan value of the securities so acquired or deposited equals or exceeds the subscription price, giving effect to a maximum loan value for the security so acquired or for any other registered security so deposited of 50 per

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"cent of its current market value as determined by any reasonable method. After such acquisition, the security or securities so acquired or deposited shall have only the maximum loan value, if any, prescribed for general accounts in the supplement to this regulation. The right shall be deemed to be issued to the customer as a stockholder if he actually owned the stock giving rise to the right when such right accrued, even though such stock was not registered in his name; and in determining such fact the creditor may rely upon a signed statement of the customer which the creditor accepts in good faith."

"AMENDMENT NO. 7 TO REGULATION U

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

"Effective December 1, 1946, Regulation U is hereby amended by adding the following new subsection at the end of section 3 thereof:

"(p) In connection with the making of a loan the sole purpose of which is to enable the borrower to acquire stock in a corporation by exercising a warrant or certificate evidencing a right to acquire such stock, which right expires within 90 days of issuance and was issued to him as a stockholder of such corporation or as a stockholder of a company distributing the stock in order to effectuate the provisions of section 11 of the Public Utility Holding Company Act of 1935, a bank may treat any stock received as collateral in connection with the making of such loan as having a maximum loan value of 50 per cent of its current market value as determined by any reasonable method. After the loan has been made, the stock so received shall have only the maximum loan value, if any, prescribed in the supplement to this regulation. The right shall be deemed to have been issued to the borrower as a stockholder if he actually owned the stock giving rise to the right when such right accrued, even though such stock was not registered in his name; and in determining such fact the bank may rely upon a signed statement of the borrower which the bank accepts in good faith."

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"PRESS STATEMENT

"The Board of Governors of the Federal Reserve System has adopted Amendments No. 6 to Regulation T and No. 7 to Regulation U, relating to the use of credit for purchasing securities, effective December 1, 1946.

"The amendments will permit stockholders of any corporation who receive rights to subscribe to new issues to obtain credit for the purpose of exercising these rights. The permission extends also to cases in which a public utility holding company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies.

"Under these amendments, if the stockholder needs to borrow in order to take up the rights issued directly to him by the company in which he owns stock, he may do so by pledging securities which, for this purpose, shall have a loan value of 50 per cent. Otherwise the prevailing 100 per cent margin requirements remain in effect.

"The Board decided that this change in the regulations would be appropriate as a matter of equity and that it could be made without stimulating speculation or encouraging to any material extent the growth of stock market credit.

"The text of the amendments is attached."

"STATEMENT FOR FEDERAL REGISTER

"This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to permit stockholders of a corporation who receive rights to subscribe to new issues to obtain credit from brokers or dealers (the Regulation U amendment would say 'banks' here) for the purpose of exercising these rights. The permission extends also to cases in which a company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities. The Board concludes that this change is appropriate as a matter of equity and can be made without stimulating speculation or encouraging to any material extent the growth of stock market credit.

"The notice and submission of data, views or arguments as described in sections 4(a) and 4(b) of the Administrative Procedure Act are unnecessary in connection with this amendment because its sole effect is to ease the restrictions of the regulation in certain minor respects."

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Messrs. Parry and Brown withdrew from the meeting at this point.

Mr. Townsend reported that his discussions of the Dallas labor case at the Federal Reserve Bank of Dallas on November 4, 5, and 6 had included several meetings with Messrs. Parten, Gilbert, and Gentry, Chairman, President, and First Vice President of the Bank, respectively, that it was the consensus of the group that it would be desirable to proceed with an election at this time rather than to have a hearing prior to the election, and that the officers were confident that the union would not win the election. He also said that while in Texas he met with the local director of the National Labor Relations Board and ascertained that there was a procedure, to which it was not necessary that the Reserve Bank consent, under which the Labor Board could order an election, and which would guarantee to the Bank the right to a hearing on any questions of jurisdiction. In these circumstances he said Messrs. Parten, Gilbert, and Gentry were agreeable to the Board's arranging with the Labor Board for such an election, preferably to be held within five days after issuance of the order, if possible.

There was an informal discussion of various steps that might be taken in connection with the procedure, and it was unanimously agreed that the Legal Division should take the necessary steps to initiate with the National Labor Relations Board an order for an election as promptly as possible.

Mr. Evans referred to the discussion at the meeting of November 5, 1946, concerning the second survey of liquid and non-liquid asset

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holdings which it was proposed should be made by the Survey Research Center of the University of Michigan. He stated that he was informed today that, in response to Chairman Eccles' letter of November 7, the Director of the Budget would write a letter to Chairman Eccles which would state that the survey of savings by the Bureau of the Census had been cancelled.

Mr. Evans then moved (1) upon receipt of the letter from the Budget Bureau, the following letter be sent to the University of Michigan, and (2) that for the reasons stated at the meeting of the Board on November 5, the Board increase the maximum amount that may be spent on the project to \$125,000, with the understanding that the additional amount will be spent only in the event that subsequent developments make it necessary to exceed the presently estimated cost of \$109,600:

"Receipt is acknowledged of your letter of October 22 transmitting four copies of a proposal dated October 6, 1946, of the Regents of the University of Michigan, under which such University agrees to conduct for the Board of Governors of the Federal Reserve System a Second National Survey of Liquid and Non-Liquid Asset Holdings.

"It is our understanding that the Board of Governors will retain title to the interview forms used in the survey and that upon completion of the survey these forms will be returned to the Board for custody in its official files. It is further understood that the Board of Governors will be furnished with a duplicate set of punch cards covering the survey information upon completion of the analytical work.

"In accordance with the last paragraph of your proposal as submitted, and subject to the understanding above, I have affixed my signature to such proposal on behalf of the Board, and two copies thereof are herewith returned.

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"If at any time it appears that the expenditures for any item included in the budget attached to your proposal will exceed the estimate for that time, it is requested that you advise the Board as promptly as possible."

Mr. Evans' motion was put by the Chair and carried unanimously.

Mr. Townsend stated that Mr. Ben DuBois, Secretary of the Independent Bankers Association, together with members of the executive committee of that Association, would be in Washington next week for a discussion of the proposed holding company bill, and that it would be desirable for the Board to invite them to luncheon.

It was unanimously agreed that Mr. Townsend should arrange a luncheon for Mr. DuBois and the other representatives of the Independent Bankers Association as guests of the Board, and that if possible the Chairman would attend the luncheon.

At this point Messrs. Thomas, Vest, 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:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 8, 1946, were approved unanimously.

Memorandum dated November 8, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Robert W. Rieseberg, an accounting clerk in that Division, be accepted to become effective, in accordance with his request, at the close of business October 24, 1946. The memorandum also stated that Mr. Rieseberg has been on military leave from the Board since March, 1942.

Approved unanimously.

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Memorandum dated November 7, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the name of Thomas Gad be dropped from the Board's pay roll effective November 16, 1946. The memorandum stated that Mr. Gad has been on military leave since January, 1942, and that he had informed the Division of Personnel Administration that he did not intend to return to the Board. The memorandum also stated that Mr. Gad was not entitled to any payment for accrued leave.

Approved unanimously.

Memorandum dated November 8, 1946, from Mr. Leonard, Director of the Division of Examinations, recommending that Harry J. Meyer, an examiner for the Federal Reserve Bank of New York, be appointed an examiner of the Board of Governors for the purpose of participating in the forthcoming examination of The Chase Bank, New York, N. Y., a corporation organized under section 25(a) of the Federal Reserve Act.

Approved unanimously.

Letter to Mr. Whittemore, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Louis A. Zehner, Assistant Vice President of the Federal Reserve Bank of Boston, for the period from November 1, 1946 through April 30, 1947, at the rate of \$8,000 per annum, which is the rate fixed by the Executive Committee as reported in your letter of November 4, 1946."

Approved unanimously.

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Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to Assistant Vice President Diercks' letter of November 4, 1946, submitting a certified copy of a resolution adopted by the Board of Directors of the Mondamin Savings Bank, Mondamin, Iowa, signifying its intention to withdraw from membership in the Federal Reserve System and the bank's request for waiver of the six months' notice usually required.

"The Board of Governors waives the usual requirement of six months' notice, as requested. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Mondamin Savings Bank, the Federal Reserve Bank is authorized to cancel its stock and make an appropriate refund thereon.

"Please advise the Board of Governors when cancellation is effected and refund is made, and also forward the Certificate of Membership which, it is understood, has already been returned to you by the bank. State banking authorities should be advised promptly when the bank's withdrawal from membership has been effected and given the reasons therefor if desired."

Approved unanimously, together
with a letter to the Honorable
Maple T. Harl, Chairman, Federal
Deposit Insurance Corporation,
Washington, D. C., reading as follows:

"In accordance with the request contained in your letter of October 31, 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 Mondamin Savings Bank, Mondamin, Iowa, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

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"There are no unfulfilled conditions or 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."

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"The following ruling relating to Regulation W will be published in the Federal Register and in the Federal Reserve Bulletin:

The Board has been asked a question regarding section 10(d) of Regulation W. The question is whether an outstanding loan originally in a face amount of \$90 which has been paid down to \$10 may be consolidated with a new advance of \$170 and the entire consolidated obligation given a maturity of eighteen months from date of consolidation, if a Statement of Necessity is furnished. The Board believes that the answer to this question has been generally understood but it has been requested to publish a ruling in order to clear up any possible misinterpretation. The answer is that only the outstanding obligation is subject to revision for eighteen months pursuant to section 10(d). The new advance must comply with the terms of the regulation for new credits, the maximum maturity depending upon the character of the new advance."

Approved unanimously.

Letter to Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of October 7, 1946, asking whether a loan to purchase a piano to be used for the purpose of furthering a person's musical education may be classed as an educational loan and thus be exempt from Regulation W under section 8(c).

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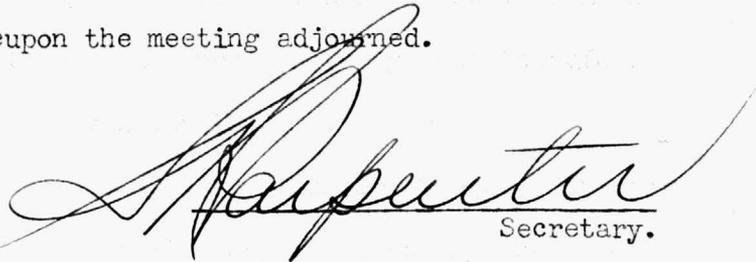
"This seems to be a borderline case, and a good argument doubtless could be made for an affirmative answer. It is our opinion, however, that such an interpretation would go beyond the intent of paragraph 8(c) and would involve substantial problems in determining whether the instrument was in fact to be used for educational purposes. It seems possible that in many cases where a piano is purchased, someone in the family will begin taking piano lessons, not necessarily with any idea of becoming a serious or life-long student.

"Aside from the administrative problem, we feel that the purchase of a piano does not clearly qualify as an 'educational expense' within the meaning of that term in section 8(c). Expense here implies the payment for a service, or for something currently consumed, rather than for purchase of a durable good such as a piano which may last a long time and is not directly consumed in the educational process. On the other hand, the rental of a piano might qualify as an educational expense, if the instrument was used in good faith for that purpose.

"We realize that financing of piano sales will become more of a problem as the supply situation improves over coming months, and it is our hope that some satisfactory solution will be worked out. Meanwhile, we believe it advisable to rule against exempting purchases of pianos under section 8(c)."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.