Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 19, 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. Vardaman
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. Bethea, Director of the Division of Administrative Services
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Townsend, Assistant General Counsel

Mr. Vardaman stated that a matter had arisen which involved a decision whether the Board should order an examination of the Farmers and Merchants Bank of Long Beach, Long Beach, California, for the purpose of obtaining information desired by the Department of Justice in connection with a case before the Supreme Court challenging the constitutionality of the provision of law under which the Federal Home Loan Bank Administrator appointed a conservator for the Long Beach Federal Savings and Loan Association. Mr. Leonard reviewed the facts in the case, stating that the matter first came to his attention early in October when
Messrs. Burklin, Comptroller, and Dougherty, Associate General Counsel, of the Federal Home Loan Bank System discussed with him and a representative of the Board's Legal Division whether the Board would make an examination of the Farmers and Merchants Bank of Long Beach in order to trace certain transactions in the accounts of specified customers of the bank over the two-day period in which the Savings and Loan Association was turned back to the management by an order in the lower court. The representatives of the Home Loan Bank System, Mr. Leonard said, had asked the bank for the information, which was refused, and while it was recognized the information could be obtained by subpoena, they hesitated to take that course because of the misunderstanding on the part of the public that might arise. Mr. Leonard also said that Messrs. Burklin and Dougherty were told that the making of an examination for this purpose involved certain difficulties, that it was hoped the desired information could be obtained in some other way, but that if Mr. Dougherty, who was flying to the Coast, found it was necessary to get the information he should contact Vice President Volberg of the Federal Reserve Bank of San Francisco, and that under date of October 25, 1946, Mr. Volberg wrote the Board as follows:

"Referring to your letter of October 11, with respect to a visit which you had received from Mr. Dougherty, Associate General Counsel of the Home Loan Bank Board, pertaining to the Long Beach Federal Savings and Loan Association, Mr. Dougherty called on us today. He was informed that we did not feel we could enter a State member bank to obtain information for a purpose such as that for which he required it."
"During the conversation, Mr. Dougherty stated he had again requested the information from Mr. G. A. Walker, President of the Farmers and Merchants Bank of Long Beach, who referred him to his brother, who is the bank's counsel. Counsel pointed out to Mr. Dougherty that because of the extreme feeling locally concerning the Long Beach Federal Savings and Loan Association matter, the bank did not wish to be placed in the position of revealing the requested facts voluntarily and suggested that the necessary legal steps to obtain the information should be taken by Mr. Dougherty. Mr. Dougherty added that counsel for the Farmers and Merchants Bank stated that if the information were to be obtained by examiners, the bank would raise no objections. It was pointed out to Mr. Dougherty that even though the bank acquiesced, we would not feel that such a precedent should be established.

"In leaving, Mr. Dougherty did not appear to be disturbed by our refusal to obtain the information and, in fact, stated that he understood our position in the matter."

Mr. Leonard added that nothing further was heard about the matter until about three weeks ago when Mr. Townsend received a call from the Office of the Solicitor General of the Department of Justice about the possibility of an examination.

Mr. Townsend said his response at that time was that he hoped it would not be necessary to make a request for an examination, and that nothing further had been heard about the matter.

Chairman Eccles stated that this matter was brought to his attention at his home on Saturday, December 14, by Mr. Fahey, Federal Home Loan Bank Commissioner, who had stated that he felt the Board was not cooperating as it should with another Government agency, and that the Solicitor General felt the same way. He said that he asked Mr. Fahey to write the Board a letter about the matter so that it would have an exact statement of the situation, and that a letter was received from Mr.
Kenneth G. Heisler, General Counsel of the Federal Home Loan Administra-
tion, dated December 16, 1946, which stated that the Home Loan Bank Ad-
ministration was having difficulty in establishing the facts in connection
with a transaction involving approximately one million dollars of the
assets of the Long Beach Federal Savings and Loan Association made during
the two days (October 1 and 2, 1946) in which the old management had tem-
porarily resumed control of the Association, that the circumstances made
it appear that a one million dollar cashier's check had been used as back-
ing for the approximately one million dollars in share accounts that were
opened during those two days, that the Department of Justice was inter-
ested in the matter and was requesting further information of the Home
Loan Bank Administration, that it was the feeling of the Department of
Justice as well as the Home Loan Bank Administration that the entire
transaction should be carefully scrutinized and the records of the Far-
mers and Merchants Bank inspected to make possible a determination of
the facts and, in particular, whether any violation of law occurred in
the matter, and that the Home Loan Bank Administration would greatly ap-
preciate any assistance the Board of Governors might give to them or to
the Department of Justice in connection with the matter.

Mr. Leonard said that following receipt of the letter he and Mr.
Townsend discussed the matter with Mr. Vardaman and called Mr. Volberg
on the telephone so that if it was necessary to make the examination he
could be making the necessary plans. Mr. Volberg said the bank had been
examined by State authorities on November 7, and that the Federal Reserve
Bank would like to avoid another examination before 90 days from that date. Mr. Leonard said that this morning a wire was received from President Earhart stating

"....it is our opinion that it would not be desirable to make the immediate examination which is being considered. State examination commenced November 7. Entry at this time by us within less than two months after State entry constituting two examinations in same calendar year by this Bank, would be contrary to our normal procedure and would undoubtedly draw attention to primary purpose for which premature entry was made. We suggest examination be deferred until February 1947 at which time complete information regarding matter of present inquiry would be developed."

Mr. Vardaman stated that he would like to know whether the Board had authority to make an examination for the purpose of obtaining the information desired, and whether, if it obtained such information, it would be a proper use of the Board's authority to make it available to the other Government agencies concerned.

It was stated that the Board had authority to make the examination, and Mr. Townsend said there were a number of cases which as precedents would establish the right of the Board to make confidential examination reports available to other Government departments and agencies with the understanding that the information contained therein would not be made public or put in evidence in a proceeding, but would be used as leads to develop necessary evidence. He also said that the question had come before the Board on previous occasions and that in his opinion it had a legitimate reason for ordering an examination to determine whether the law had been violated by the member bank and to make the facts disclosed by the examination available to the Department of Justice.
Mr. Vardaman raised the question whether an examination so soon after the State examination would involve a risk of serious damage to the member bank, and it was felt that it would not.

Mr. Vest said the provisions of the Federal Reserve Act authorized the Board to make an examination and to make the report available to proper persons for proper purposes.

It was agreed that the request coming from the Department of Justice would relieve the Board of any embarrassment that it might otherwise have, and that the Board should respond to the request for an examination.

It was unanimously agreed that the Federal Reserve Bank of San Francisco should be requested by telephone to make a general examination of the Farmers and Merchants Bank of Long Beach, in the course of which it should develop the desired information relating to the transactions concerned, that such examination should not be started until after the first of 1947, and that the Solicitor General and the Federal Home Loan Bank Administration should be advised informally of the circumstances which made it undesirable to commence such an examination immediately.

Messrs. Leonard and Brown left the meeting at this point.

Chairman Eccles reported that in accordance with the understanding reached at the meeting on December 17, 1947, he talked by telephone with Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, and informed him that the decision of the Board not to redesignate him as Chairman and Federal Reserve Agent remained unchanged, that the Board
would be glad to have him continue as a Class C director, and that the Board planned to ask Mr. Hoffman, now a Class C director of the Federal Reserve Bank of Chicago, to serve as Deputy Chairman. Chairman Eccles also stated that Mr. Leland had said he intended to continue as a Class C director. Chairman Eccles added that he also talked with Mr. Hoffman, who stated he would discuss the matter with Mr. Leland, so that there would be no misunderstanding on his part, and with President Young, and that a telegram had come from Mr. Hoffman this morning stating that he would be glad to serve as Deputy Chairman.

By unanimous vote Mr. Hoffman was appointed Deputy Chairman of the Federal Reserve Bank of Chicago for the calendar year 1947.

Chairman Eccles also reported that in accordance with the action taken at the meeting on December 17 he had talked by telephone with Mr. Rumal, Chairman of the Federal Reserve Bank of New York, and informed him that in view of his desire to be relieved of the Chairmanship of that Bank and his stated willingness to resign as a Class C director in order to open the way for appointment of a new director who could also be designated as Chairman and Federal Reserve Agent, the Board had concluded that this was the best procedure to follow. It was understood, Chairman Eccles said, that a letter of resignation would be received from Mr. Rumal shortly.

In accordance with the request made by Mr. Vardaman at the meeting on December 17, 1946, there was a further discussion of the desirability of reducing margin requirements prescribed in Regulation T,
Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Mr. Ransom stated that he did not think there was an adequate reason for a reduction at this time, but that he thought margins should be reduced as soon as adequate reasons were present as a basis for such action.

Mr. Vardaman said that he had felt the matter should be discussed and that he would prefer to have a unanimous vote on any action to reduce margin requirements.

There was a further general discussion of the conditions under which action by the Board would be justified, and it was the consensus of the members present that inflationary pressures were still great, that there had not yet been an indication of a general leveling off in the cost of living or in the expansion of commercial bank credit, that until there was greater evidence of stability it would not be appropriate to reduce margin requirements, and that the matter should be watched closely and reviewed further some time after the turn of the year.

The meeting recessed and reconvened at 2:20 p.m. with the same attendance as at the close of the morning session, except that Messrs. Eccles, Thurston, Parry, and Townsend were not present.

Mr. Evans stated that the Personnel Committee had gone over the budget for 1947 as submitted by Mr. Bethea as budget officer, that a
copy of the budget had been sent to each member of the Board, and that the principal questions to be raised at this meeting in connection with the budget had to do with provision by the Division of Research and Statistics for 48 vacancies in the Division and two matters of organization in the Division of Administrative Services. He said that it was realized that the Division of Research and Statistics was short of personnel, but that the Committee felt it undesirable for reasons which were stated to show in the budget a substantial number of positions to be filled.

Mr. Thomas stated that it would be agreeable to him to approve the budget without provision for the 48 vacancies, because under the present budget procedure approval by the Board of the employment of an individual included approval of the addition of the salary of the new employee to the budget of the Division.

Mr. Vardaman stated that some of the members of the Board had discussed at luncheon the desirability of having a statement prepared by the Director of the Division of Research and Statistics setting forth a projected general program of research work over a period of the next five years, and that he thought such an outline would be very desirable for the information of Board members.

Mr. Thomas said that he and Mr. Young would be glad to prepare such a statement.

It was agreed unanimously that the Division of Research and Statistics should prepare a forecast of the research work that the Division might be called on to perform over a period of the next five years and submit it to the Board some time after January of next year.
Mr. Evans then stated that in connection with the budget of the Division of Administrative Services the Personnel Committee wished to recommend (1) that responsibility for dispatching cars and receiving people coming into the garage be assigned to a Head Chauffeur or in his absence to a substitute, that the chauffeurs be separated from the guard force, and that arrangements be made to have the west door of the garage opened for the exit of cars under the direction of the Head Chauffeur, and (2) that a woman receptionist be substituted for the guard now stationed in the oval on the second floor.

These recommendations were discussed and referred to Mr. Draper, as the member of the Board whose assignments included the operation and maintenance of the Board's building, for consideration and recommendation as to the action to be taken.

Mr. Evans then moved that the Board approve the budget for the year 1947 as follows, which would provide for a personal services budget for the Division of Research and Statistics of $559,023.89 (including $5,000 for the salary of Dr. Morris A. Copeland for the last half of the year, but not including any of the 43 vacancies covered by the budget of the Division as submitted):

"BUDGET
For the Year Ending December 31, 1947

PERSONAL SERVICES

Salaries $1,965,014.24
Retirement Contributions 152,442.19

Total Personal Services $2,117,456.43
"NON-PERSONAL SERVICES

Traveling Expenses $161,950.00
Postage and Expressage 22,520.00
Telephone and Telegraph 54,300.00
Printing and Binding 120,450.00
Stationery and Supplies 21,300.00
Furniture and Equipment 32,685.00
Books and Subscriptions 10,240.00
Heat, Light, and Power 28,000.00
Repairs and Alterations (Building and Grounds) 6,100.00
Repairs and Maintenance (Furniture and Equipment) 6,875.00
Medical Service and Supplies 3,200.00
Insurance 5,980.00
Miscellaneous 168,825.00

Total Non-Personal Services $642,425.00

Total Non-Personal Expenses $642,425.00

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

The proposal contained in the budget that the budget for night work differential, occasional overtime, and extra holiday pay be adjusted when necessary during 1947 and subsequent years in order to provide for duly authorized payments of this nature was also approved unanimously.

The following resolution levying an assessment on the twelve Federal Reserve Banks to cover the expenses of the Board for the first six months of 1947, as provided in the annual budget approved by the Board at this meeting, was approved unanimously:

"RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things, that the Board of Governors of the Federal Reserve System shall have power to levy
"Semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1947, it is necessary that a fund equal to two hundred and four thousandths of one per cent \(0.00204\) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and four thousandths of one per cent \(0.00204\) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of each such Bank at the close of business December 31, 1946.

(2) Such assessment shall be paid by each Federal Reserve Bank in two equal instalments on January 2, 1947, and March 1, 1947, respectively.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

At this point Messrs. Thomas, Vest, Bethea, and Nelson withdrew from the meeting and the action taken 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 December 18, 1946, were approved unanimously.

Memorandum dated December 13, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Harold F.
12/19/46

Memorandum dated December 16, 1946, from Mr. Parry, Director of the Division of Security Loans, recommending that the temporary indefinite appointment of Mr. Francis R. Pawley, a Special Assistant in that Division, be made permanent effective today.

Approved unanimously.

Letter to Mr. Brainard, Federal Reserve Agent of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of December 12, 1946, the Board of Governors approves, effective January 1, 1947, the payment of salaries to the following members of the Federal Reserve Agent's Staff at the rates indicated:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norman R. Matter</td>
<td>Asst. Federal Reserve Agent</td>
<td>$4,600</td>
</tr>
<tr>
<td>Elmer F. Fricek</td>
<td>Alternate Asst. Federal Reserve Agent</td>
<td>4,000</td>
</tr>
<tr>
<td>Karl P. Wendt</td>
<td>Alternate Asst. Federal Reserve Agent</td>
<td>3,900</td>
</tr>
<tr>
<td>Harry H. Ostendorf</td>
<td>Federal Reserve Agent's Representative - Cincinnati Branch</td>
<td>4,320</td>
</tr>
<tr>
<td>Howard Evans</td>
<td>Federal Reserve Agent's Representative - Pittsburgh Branch</td>
<td>5,400</td>
</tr>
</tbody>
</table>

Approved unanimously."
Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"In view of the circumstances described in your letter of December 12, 1946, the Board of Governors approves, effective January 1, 1947, the payment of salaries to the following employees at the rates indicated:

<table>
<thead>
<tr>
<th>Name</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irene Bagley</td>
<td>$4,000</td>
</tr>
<tr>
<td>M. J. Crisco</td>
<td>3,300</td>
</tr>
<tr>
<td>H. S. Dennerle</td>
<td>3,600</td>
</tr>
<tr>
<td>Florence Gale</td>
<td>3,000</td>
</tr>
<tr>
<td>Mabel Gray</td>
<td>2,424</td>
</tr>
<tr>
<td>John Haliski</td>
<td>2,600</td>
</tr>
<tr>
<td>Cora King</td>
<td>3,500</td>
</tr>
<tr>
<td>Frank Karhan</td>
<td>2,800</td>
</tr>
<tr>
<td>Charles Koenig</td>
<td>4,800</td>
</tr>
<tr>
<td>Nettie Kulow</td>
<td>2,500</td>
</tr>
<tr>
<td>Helen Pinkle</td>
<td>2,500</td>
</tr>
<tr>
<td>Sally Robbins</td>
<td>2,120</td>
</tr>
<tr>
<td>Wm. Stenhouse</td>
<td>2,520</td>
</tr>
<tr>
<td>Wm. Young</td>
<td>2,520</td>
</tr>
<tr>
<td>Anna Wolf</td>
<td>2,460</td>
</tr>
</tbody>
</table>

Approved unanimously.

Letter to the board of directors of the "Bank of Clarence", Clarence, New York, 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 New York.

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

Letter to the board of directors of the "Grand Marais State Bank", Grand Marais, Minnesota, stating that, subject to conditions of
membership numbered 1 to 3 contained in the Board's Regulation H and
the following special condition, the Board approves the bank's applica-
tion for membership in the Federal Reserve System and for the appropriate
amount of stock in the Federal Reserve Bank of Minneapolis:

"4. Such bank shall increase the number of its
directors to not less than five, the minimum
number required in the case of all member
banks under the provisions of Section 31 of
the Banking Act of 1933 as amended."

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

"The Board of Governors of the Federal Reserve System
approves the application of the Grand Marais State Bank,
Grand Marais, Minnesota, for membership in the Federal Re-
serve System, subject to the conditions prescribed in the
closed 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 Commissioner of Banks for the State of Minnesota, for
his information.

"In connection with condition of membership numbered
4, it has been noted that the bank has agreed to increase
the number of its directors to five at its next annual
stockholders' meeting, to be held in January 1947. With
the understanding that the required action will be taken
at that time, the Board will not object to the admission
of the bank to membership with only four directors."

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

"For use in connection with any hearings which may be
held in Congress on consumer credit legislation, please ad-
vise as to total number of disciplinary conferences in your
district since Regulation W was first issued. Also please
advise whether you think it feasible to count and segregate
letters received commending enforcement methods."

Approved unanimously.
Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"In its letter of May 28, 1945, you were requested to advise the Board of visits which had been made to your Bank by representatives of the various Government departments, agencies, and corporations for the purpose of auditing or examining records maintained or assets held by the Bank in its capacity as fiscal agent, custodian, or depositary. Replies to this letter enabled the Board to become informed of the situation at that time.

"Recently, the Board was advised with respect to visits to some of the Federal Reserve Banks by representatives of the Corporation Audits Division of the General Accounting Office for the purpose of investigating records maintained and procedures followed by the Banks as custodian of the Reconstruction Finance Corporation in work for the Office of Defense Plants. From information at hand it appears that these investigators have confined their work to records and procedures relating to the Office of Defense Plants.

"So that the Board may be kept currently informed, it is requested that until further notice such visits to your Bank as are referred to in the first paragraph above be reported to the Board as well as visits for the purpose of observing operating procedures, discussing proposed changes in operations or instructions, revising or designing forms or methods of making reports, or for other similar purposes. Information furnished should include the names or titles of the persons visiting the Bank, the departments, agencies or corporations represented, and a brief statement of the nature of the call. Conversely, visits to Government departments and agencies made by Reserve Bank officers and employees, except in connection with Open Market operations, should also be reported, together with visits to other Federal Reserve Banks if Government representatives are present.

"If any representatives of Government departments or agencies undertake to make examinations or inspections of the records of the Federal Reserve Banks other than those directly related to Fiscal Agency operations or to check, determine, or discuss Fiscal Agency expenses of the Banks, it is assumed that before acceding to the request your Bank will take up the matter with the Committee on Fiscal Agency Operations and Reimbursable Expenses and with the Board of Governors in accordance with the agreement reached at the June 11, 1946, joint meeting of the Presidents and the Board."

Approved unanimously.
Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"The Board has carefully considered the views expressed at the Conference of Presidents in October, as well as those contained in the report of its Committee on Legislation, with respect to the draft of a proposed bill to repeal section 13b and amend section 13 of the Federal Reserve Act, which was submitted to the Federal Reserve Banks for comment on May 17, 1946. As the result of its further consideration, the Board has made some changes in that draft of the proposed bill and a copy of the revised bill is enclosed. In its revised form, the Board expects to recommend the bill for enactment by Congress at an appropriate time.

"The enclosed bill, like the previous draft, would repeal section 13b of the Federal Reserve Act in its entirety, with a provision for repayment by the Federal Reserve Banks to the Treasury of the total amounts which have been received from the Treasury under that section. However, the revised bill would add a new paragraph to section 13 of the Federal Reserve Act authorizing the Federal Reserve Banks to guarantee financing institutions against loss on loans made to business enterprises or to make commitments to purchase such loans. Under the bill, no such loan could have a maturity of more than 10 years. A guarantee or commitment could not exceed 90 per cent of the unpaid balance of any loan. The aggregate amount of guarantees and commitments could not exceed the combined surplus of the Federal Reserve Banks; and the aggregate amount of guarantees and commitments with respect to large loans, that is, guarantees and commitments individually in excess of $100,000, could not be more than 50 per cent of the combined surplus of the Reserve Banks.

"It will be noted that the revised draft of the bill contains no authority for direct advances by the Federal Reserve Banks. In the judgment of the Board, the attitude of Congress would be unfavorable to the making of direct loans and therefore it is believed that the omission of this authority will increase the chances of enactment of the bill. Some of the limitations mentioned above, although not as restrictive, are similar in purpose to those recommended by the Presidents and have been included in the light of the suggestions received from the Presidents and with the hope that they will enhance the prospects of the bill's passage.

"There is enclosed an explanatory statement with respect to the proposed bill which the Board expects to use in presenting the bill to Congress."
"A BILL

To repeal section 13b of the Federal Reserve Act, to amend section 13 of the said Act, and for other purposes.

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

"Section 1. Repeal of section 13b of the Federal Reserve Act. Section 13b of the Federal Reserve Act is hereby repealed; but such repeal shall not affect the power of any Federal Reserve Bank to carry out, or to protect its interests under, any agreement heretofore made in carrying on operations under that section. Within sixty (60) days after the enactment of this Act, each Federal Reserve Bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of section 13b of the Federal Reserve Act, together with any net earnings thereon for the period from January 1, 1947, to the date on which such payment to the United States is made; and such payment shall constitute a full discharge of any obligation or liability of the Federal Reserve Bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of said section 13b or any agreement thereunder.

"Sec. 2. Amendment of section 13 of the Federal Reserve Act. Section 13 of the Federal Reserve Act, as amended, is hereby further amended by adding at the end thereof the following new paragraph:

'Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe, any Federal Reserve Bank may guarantee any financing institution against loss of principal or interest on, or may make a commitment to purchase and thereafter purchase from a financing institution, any loan made to a business enterprise which has a maturity of not more than 10 years. No Federal Reserve Bank under this paragraph shall guarantee or make a commitment to purchase more than 90 per cent of the unpaid balance of any loan. The aggregate amount of guarantees and commitments of the Federal Reserve Banks under this paragraph outstanding at any one time, together with the amount of loans acquired thereunder and held by them at the same time, shall not exceed the combined surplus of the Federal Reserve Banks at such time; and the aggregate amount of such guarantees and commitments outstanding at any one time and loans held at the same time, which individually are in excess of $100,000, shall not exceed 50 per cent of the combined surplus of the Federal Reserve Banks at such time.'"
STATEMENT IN CONNECTION WITH PROPOSED BILL TO REPEAL SECTION 13b AND AMEND SECTION 13 OF THE FEDERAL RESERVE ACT

The Board of Governors of the Federal Reserve System recommends for the favorable consideration of the Committee on Banking and Currency the attached draft of a bill which has for its purpose the revision of the authority of the Federal Reserve Banks to guarantee financing institutions against loss on loans made to business enterprises. Such guarantees by the Reserve Banks would require no appropriations by Congress.

The Federal Reserve Banks are especially qualified for providing financial assistance to business enterprises through commercial banking channels. They hold the reserves of member banks, they provide discounting facilities for member banks, they collect their checks, and they administer many of the governmental regulations affecting banks. In numerous ways the Reserve Banks have long been in close contact with commercial banks and business enterprises in their districts and are fully acquainted with their problems. Since the Federal Reserve Banks are permanent institutions with experienced personnel, the Board feels that whatever financial assistance is to be provided under governmental authority for business enterprises through commercial banks should be extended by the Reserve Banks.

During the war, the Federal Reserve Banks gained valuable experience in the administration of the V- and T-loan programs for guaranteeing war production and contract termination loans. Under those programs, the Reserve Banks, as of September 30, 1946, had processed 8,771 guarantees, aggregating nearly 10-1/2 billion dollars, losses being relatively small and substantially less than the guarantee fees collected. The proposed bill follows the guarantee principle which was applied under those programs; and financing institutions are already familiar with the services of the Reserve Banks in that field. Accordingly, the bill would not involve the establishment of any new governmental agency or the application of untried principles.

Even though business and credit conditions at any particular time may not be such as to require extensive use of the guarantee authority which the Reserve Banks would have under this bill, it is desirable that such authority be made a part of the law in order that it may be promptly available in periods when conditions are such that the need may be greater.

Provisions of the Bill

The proposed bill contains two sections. The first section would repeal section 13b of the Federal Reserve Act which contains the present authority of the Federal Reserve Banks to make and guarantee industrial loans. In doing so, it would require the
"return by the Federal Reserve Banks of all funds heretofore received by them from the Treasury in connection with their industrial loan operations and would eliminate any further claim upon the Treasury for any part of the $139,000,000 which was appropriated for this purpose. The second section of the bill would add a new paragraph to section 13 of the Federal Reserve Act in order to continue the authority of the Federal Reserve Banks to guarantee financing institutions against loss on loans made to business enterprises or to make commitments to purchase such loans, but on a more effective basis than at present. In carrying out operations under such authority, the Federal Reserve Banks would utilize their own funds and no use of Treasury funds or any appropriation by Congress would be required.

"It will be recalled that when section 13b of the Federal Reserve Act was enacted in 1934, about 139 million dollars was appropriated out of the miscellaneous receipts created by the increment resulting from the reduction in the weight of the gold dollar, in order that the Secretary of the Treasury might make advances to the Reserve Banks for the purposes of industrial loans. About 27 million dollars has been received by the Reserve Banks from the Treasury under this authority. Under the proposed bill, the funds received would be returned to the Treasury and the appropriation would be repealed. Thus, 139 million dollars would no longer be earmarked for payment to the Reserve Banks and would therefore be available for other governmental purposes.

Revision of Existing Authority of Reserve Banks

"The Board recommends the repeal of section 13b of the Federal Reserve Act because the restrictive provisions now contained in that section are such as to make it of little value under present conditions. These restrictions require that loans be made for working capital purposes, that they be made only to established enterprises, that they have maturities of five years or less, and that the portion of the loan guaranteed may not exceed 80 per cent. When section 13b was added to the Federal Reserve Act in 1934, the need was very largely for working capital financing. However, experience has shown that many of the loans applied for involved the use of the proceeds for both working capital purposes and the acquisition of fixed assets and the repairing and modernizing of plants.

"In lieu of the restricted authority contained in the present law, the second section of the proposed bill would authorize the Federal Reserve Banks to guarantee loans made by financing institutions to business enterprises. This authority would be subject to appropriate limitations. No loan guaranteed could have a maturity of more than ten years. While the percentage of the
The loan guaranteed by a Federal Reserve Bank would vary with specific cases, it could not exceed 90 per cent in any instance; in other words, the commercial bank would be required to assume at least 10 per cent of the risk involved in any loan. The aggregate amount of all guarantees and commitments could not exceed the combined surplus of the Federal Reserve Banks; and, in order to insure the availability of guarantees for loans to smaller businesses, the aggregate amount of all guarantees which are individually in excess of $100,000 could not exceed 50 per cent of the combined surplus of the Reserve Banks. All operations of the Federal Reserve Banks under this section would be subject to the regulatory supervision of the Board of Governors.

Direct Lending Eliminated

"Authority for the making of direct loans by the Federal Reserve Banks, now contained in section 13b of the Federal Reserve Act, would be eliminated under this bill. The basic purpose of the proposed legislation is to assure an adequate flow of private credit to small businesses in times of need. The Federal Reserve Banks would not be placed in competition with the private banking system. Under the bill, the loans would be made by local banks dealing with local people whom they know and with whose character, capability and capacity they would be familiar. To the extent that the banks might make such loans without reliance upon a guarantee, so much the better. However, if for any reason the local bank should desire a guarantee, the support of the Federal Reserve Bank would be promptly available in suitable cases without the necessity of referring the matter to any agency in Washington for approval.

"The Board feels strongly that any governmental assistance in the financing of small businesses should be extended by means of guarantees through the regular banking channels in the manner provided by this bill rather than through direct loans by governmental agencies. Moreover, under this bill the Federal Reserve Banks, which are permanent institutions, would use their own funds, rather than funds derived from taxation or governmental borrowing, for the purpose of aiding in the financing of business enterprises, and there would appear to be no necessity or justification for permitting any agency of the Government to use governmental funds for this purpose."

Approved unanimously.

Memorandum dated December 11, 1946, from Mr. Smead, Director of the Division of Bank Operations, recommending, for the reasons stated in the memorandum, that Form F. R. 105a be changed as indicated, and that
12/19/46

a letter to the Federal Reserve Banks transmitting the end-of-year report forms be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

Secretary.