

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 7, 1947.

PRESENT: Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman

As stated in the minutes of December 26, 1946, Mr. Vardaman was absent on official business.

Memorandum dated January 7, 1947, from Messrs. Thomas and Knapp, Director and Assistant Director of the Division of Research and Statistics, respectively, recommending that Mr. Howard Cross, now in the Cash and Collections Department of the Federal Reserve Bank of New York, be assigned to the American-Philippine Financial Commission for a period of approximately three months, with the understanding that his traveling expenses and per diem would be paid by the State Department, while his salary would continue to be paid by the Federal Reserve Bank of New York. The memorandum also stated that Mr. Knoke, Vice President of that Bank, had approved the assignment.

Approved unanimously.

Letter to Mr. Stryker, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in Mr. Sproul's letter of January 3, 1947, the Board of Governors approves, effective January 1, 1947, the payment of salary to Mrs. Edna K. Reynolds, as Alternate

1/7/47

-2-

"Assistant Federal Reserve Agent, at the rate of \$4,250 per annum."

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 January 2, 1947, the Board of Governors approves the appointment of Mr. Gordon Trowbridge as Federal Reserve Agent's Representative, Pittsburgh Branch, at his present salary of \$3,420, to succeed Mr. Howard Evans.

"This approval is given with the understanding that Mr. Trowbridge will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Pittsburgh Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

"Mr. Trowbridge should execute the usual oath of office which should be forwarded to the Board. It is noted from your letter that the Board will be advised as to the date upon which Mr. Trowbridge assumes his duties as Federal Reserve Agent's Representative."

Approved unanimously.

Letter to the board of directors of the "Dobbs Ferry Bank", Dobbs Ferry, New York, stating that, subject to conditions of membership numbered 1 to 6 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.

1/7/47

-3-

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

"The Board of Governors of the Federal Reserve System approves the application of the Dobbs Ferry Bank, Dobbs Ferry, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York, for his information.

"While the usual conditions of membership relating to the administration of trusts have been prescribed as recommended, it is noted that the vice president and cashier, who also acts as trust officer, appears to have little knowledge of trust matters and the activities of the trust department appear to receive little or no formal review by the directors. It is assumed that the Reserve Bank will, in the course of supervision, bring about whatever correction may be necessary in the circumstances.

"Since it is understood that in the State of New York trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice."

Letter to the Federal Deposit Insurance Corporation 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 Farmers and Stockmens Bank, of Valier, Montana, Valier, Montana, became a member of the Federal Reserve System on December 30, 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

1/7/47

-4-

"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 Mr. Woolley, Vice President and Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of December 28, 1946, with regard to the application of The Kansas State Bank, Newton, Kansas, for permission to exercise limited fiduciary powers.

"In view of the information submitted, and of your favorable recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 1, to act as executor, administrator, and guardian of estates. The Board's approval is given subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

4. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.

1/7/47

-5-

- "6. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise The Kansas State Bank, Newton, Kansas, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board."

Approved unanimously.

Letter to Mr. Watson S. Dudley, Cornwell Heights, Pennsylvania, reading as follows:

"This refers to your letter of December 20, 1946, in which you inquire whether this Board's Regulation T would permit you to withdraw a portion of the proceeds realized on the profitable sale of securities effected in a margin account for the purpose of paying the income tax due as a consequence of the capital gain.

"At present, the regulation does not permit the withdrawal of cash from a margin account on the sale of securities. In view of the fact that new purchases of securities may not be made on margin, the Board has felt that securities previously purchased on margin should be paid for in full before securities or proceeds of sales can be obtained by the customer.

"This rule would have no bearing on your liability to pay taxes on profits realized."

Approved unanimously.

Letter to Mr. Oliver B. Henry, Waldheim, Platt & Co., 308 North Eighth Street, St. Louis 1, Missouri, reading as follows:

"This is in reply to your letter of December 24, 1946, to Chairman Eccles which was received in his absence. You make reference to the Board's regulations governing margin requirements on security transactions.

1/7/47

-6-

"You suggest first that full cash payment may no longer be necessary because of the low level of credit outstanding for the purchase of securities in comparison with levels which prevailed in the past. We can certainly agree with you that the present figure is low by such a comparison, but it has been the view of the Board that any figure must be considered not only in the light of past levels but also in the light of the general economic situation of the time. The full cash payment rule was adopted at a time when inflationary pressures were strong, liquid assets were large, and any credit for security transactions would be not only unnecessary but undesirable.

"In the last few weeks there have been some indications of a possible slackening in inflationary developments, although liquid assets remain large and commercial bank loans continue to rise. The Board is prepared to act on margin requirements when it can be established definitely that the need for the present rule no longer exists. It has not seemed to the Board, however, that the conditions for such an action have as yet become evident.

"You refer also to the fact that the regulations do not apply to loans by banks to finance the purchase of 'unlisted' securities. As a legal matter, the Board has no power to cover such loans, since the Securities Exchange Act of 1934 specifically provides that the regulations shall not be applicable thereto. The theory of the law is that the unlisted market is subsidiary to the organized markets and no very large amount of credit is likely to be generated in it if the organized markets are subject to control. While this theory has merit, the Board has in the past supported an amendment to the Act which would permit coverage of unlisted stocks in case the need arose.

"There is one point, however, on which your letter indicates a possibility of some misunderstanding. The regulations do not permit a bank to lend on unlisted stocks for the purpose of purchasing listed stocks.

"We have been glad to have this opportunity to explain the position of the Board and appreciate the spirit with which you write."

Approved unanimously.

1/7/47

-7-

Letter dated January 6, 1947, to the Presidents of all the Federal Reserve Banks reading as follows:

"Replies have now been received from all of the Reserve Banks to the Board's wire of December 19, 1946, asking the number of disciplinary conferences held under Regulation W and whether it would be feasible to count the letters commending enforcement methods.

"The replies indicate that approximately 418 conferences have been held.

"Although four of the Banks said that it would be feasible to count the letters received by them commending enforcement methods, three Banks indicated that it would be arduous, and three said that it would not be feasible. The remaining two Banks said that they had received few such comments. Moreover, three of the Banks said that most of the comments which they received on this subject were oral. Accordingly, we believe that it would not be desirable to attempt any such tabulation."

Approved unanimously.

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

"Question No. 4 of your letter of November 30, 1946, requests advice regarding the application of section 6(h) of Regulation W covering 'Sets and Groups of Articles.' The Board's views in this regard, which are set forth below, will be the subject of an S-letter to all Federal Reserve Banks. However, the Board would appreciate your views regarding the presentation of this tentative interpretation before its publication as an S-letter.

"In determining whether several items are to be considered a single 'article' for purposes of Regulation W, as a 'set, group, or assembly', three basic requisites must be considered:

1. The items must be so related as to constitute a set, group, or assembly;
2. They must be commonly merchandised as a single unit; and
3. They must be sold or delivered at substantially the same time.

1/7/47

-8-

"The first requisite is that the items shall be related. This is principally a matter of function. Examples which would be included are components of a sectional bookcase, dining-room table and extension leaves, lounge chair and matching ottoman, living-room, dining-room, and bedroom suites. On the other hand, a refrigerator and a vacuum cleaner or a radio and a chair clearly would not be deemed sets even if offered in combination. Similarity of design would be a contributing factor, confirming the determination made on functional grounds and helping to decide doubtful cases. But, some variation in design would be possible without necessarily excluding the items from being considered to be a set.

"The second requisite is that the items shall be commonly merchandised as a single unit. This requisite refers to the merchandising practices of the particular seller, and practices in the particular trade would be significant in throwing light on the practices of the seller. The essential consideration is how the items are offered to customers. In this connection, such matters as the ways in which the items are advertised, ticketed, and priced would be important. When they are available at a price which is less than the total of the prices for the components if bought separately or when it is only seldom that the seller is willing to sell them separately, there would be a strong indication that the items are to be considered a set. In some cases, the same items will be offered both as sets and for individual purchase, as when a tank type vacuum cleaner and a motor-driven brush type vacuum cleaner are offered separately and also in combination at a reduced price.

"The third requisite is self-explanatory.

"In order for section 6(h) of Regulation W to be applicable to the items as a set, all three requisites must be present. For example, a sofa and matching lounge chair or bed-springs and mattress might meet fully the requirement that they be related, but the method of offering might be such that they are separately priced, without reduction when bought in combination, and the customer has a free choice as to whether he will buy one or the other or both. In such cases, the items would not be considered to be a set even though bought at the same time."

Approved unanimously.

1/7/47

-9-

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

"This refers to your letter of December 16, 1946, regarding the request of Mr. Rex P. Teeters, President, Shiawassee County Bank, Durand, Michigan, for an amendment to Regulation W to provide a maturity of 24 months on the financing of new passenger automobiles on the ground that the present terms of the regulation require larger monthly payments on the financing of new car purchases than the average worker can afford.

"While it is true that a comparison of terms before the war and at present will indicate that considerably higher payments are now required, we believe it should be pointed out that such a comparison tends to overstate the case since it ignores some of the important developments which have occurred in the interval. Prices of new automobiles have increased less since 1941 than have average earnings of production workers or disposable incomes of all individuals. In addition, sizeable amounts of liquid assets have been accumulated even by people with middle and lower incomes.

"As you know, the Board contemplates that further modification of the terms of Regulation W will be needed when present inflationary pressures have subsided. With the supply of automobiles as limited as it is now in relation to the demand, however, the Board has not considered that this is the proper time to lengthen the maturity permitted on automobile instalment credit."

Approved unanimously.

Letter to Mr. Strothman, Assistant Counsel of the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of December 13, 1946, inquiring as to the application of Regulation W to the sale of 'new' automobiles by used car dealers at a price substantially above that charged by new car dealers in the same community.

"The terms of Regulation W at present do not limit the cash price of an automobile, whether new or used, for the purpose of determining the down payment and

1/7/47

-10-

"maximum loan value, provided the cash price is the bona fide 'cash price' actually paid by the purchaser. On and after January 15, however, the credit value of a 'used' automobile must be based on the lower of the cash purchase price or the 'appraisal guide value,' and the answer to the question you submit depends, after that date, on whether the automobile is in fact 'new' or 'used.'

"Whether an automobile is new or used will depend on customary trade practices and the facts in each case. In general it is clear that any automobile that has been used for automotive transportation is a used car. An automobile, even if it has not been so used, is also classed in the trade as a 'used' car if it has been sold to a user. In practice, it may be presumed that an automobile becomes a used car when it is first sold to any person not engaged in the business of selling automobiles.

"In the case you mention, therefore, the car offered or sold by the used car dealer would be classed as a used automobile if it had been sold by the new car dealer to an automobile user who in turn sold it to the used car dealer. There may also be some circumstances, as in the case of a demonstrator, under which the car in question -- for the purposes of Regulation W -- would be considered a 'used' automobile even if it had not first been sold to a user."

Approved unanimously.

Memorandum dated January 6, 1947, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the January issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Cessation of Hostilities
Statement by the President
Proclamation 2714

Approved unanimously.

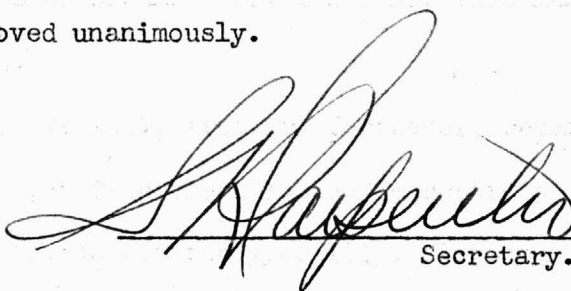
1/7/47

-11-

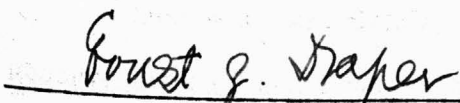
Memorandum dated January 7, 1947, from Mr. Shay, Assistant Counsel, recommending that there be published in the law department of the January issue of the Federal Reserve Bulletin a statement in the form attached to the memorandum with respect to the following subject:

Suit Regarding Removal of Bank Directors

Approved unanimously.


Secretary.

Approved:


Member.