

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 23, 1947.

PRESENT: Mr. Eccles, Chairman
Mr. Draper
Mr. Evans
Mr. Vardaman

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 22, 1947, were approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of January 10, 1947, supplementing your letter of October 10, 1946, regarding the review made of member banks in the Sixth Federal Reserve District which have been granted either the authority to accept up to 100 per cent of their capital and surplus or the authority to accept drafts and bills drawn to furnish dollar exchange.

"In accordance with the recommendation made in your letter, the Board has today rescinded the authority of the member banks named below to accept drafts and bills of exchange up to 100 per cent of their capital and surplus, such rescission to become effective May 1, 1947:

The Citizens and Peoples National Bank of
Pensacola, Pensacola, Florida
Savannah Bank & Trust Company of Savannah,
Savannah, Georgia
The First National Bank of Clarksville,
Clarksville, Tennessee

"There are enclosed letters addressed by the Board to these banks with respect to this matter; and it will be appreciated if you will promptly transmit them to the banks affected. For your records, there is also enclosed a copy of each such letter."

Approved unanimously.

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Letter to the Honorable Bertrand W. Gearhart, United States House of Representatives, reading as follows:

"This is in reply to your letter of January 20, 1947, with which you enclosed a copy of a letter to us from Mr. Charles R. Cooper, 101 California Street, San Francisco, California, relative to the Board's Regulation T.

"We have had considerable correspondence with Mr. Cooper in which a number of the aspects of security market regulation were discussed. As we understand Mr. Cooper's basic problem, it is that he has had a margin account for some period of time in which there was a balance owing on January 21, 1946, when the Board changed the margin rules to require the cash payment for securities purchased. Mr. Cooper now wants to use some of the securities in his margin account as collateral on a loan to obtain funds to pay taxes.

"The effect of the Board's rules is that an individual who wants to withdraw securities from his margin account must reduce the balance owing in the account by an amount equal to the current value of the securities withdrawn. Accordingly, it will not be feasible for Mr. Cooper to accomplish his purpose, since if he had the funds to reduce his balance he could instead use them for the payment of taxes.

"The Board has felt that, during the time when other people have been required to pay full cash for securities, anyone who had previously bought on margin should not be able to get any securities out unless he paid his account in full or put up the full value at the time of withdrawal.

"Mr. Cooper has made some point of the fact that his account contains certain low-priced stocks which are treated somewhat differently than other stocks under New York Stock Exchange rules. We have been unable to make clear to him that this has nothing to do with the margin rules of the Board which operate entirely independently of the rules of the New York Stock Exchange. It may be that if he will talk further with his broker this aspect might be clarified.

"Since our last letter to Mr. Cooper, the Board has made a change in margin requirements effective February 1, 1947, so that they are now at a 75 per cent level. We have nothing to indicate what the status of Mr. Cooper's account may be but it is possible that this change will free some of his securities and permit what he wishes to do.

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"In accordance with your request, we are returning the copy of Mr. Cooper's letter."

Approved unanimously.

Memorandum dated January 21, 1947, from Mr. Bethea, Director of the Division of Administrative Services, stating that the supply of "Banking Studies" published in 1941 had been exhausted, and recommending that 5,000 paper-bound copies be printed at an approximate cost of \$4,200. The memorandum further recommended that the appropriate classification in the budget of the Division of Administrative Services be increased to meet this expense, and that a charge be made of \$1.00 each for one to nine copies of the volume and 75 cents each for ten or more copies.

Approved unanimously.

Memorandum dated January 23, 1947, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the February issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Margin Requirements for Purchasing Securities
Supplements to Regulations T and U

Foreign Funds Control
Treasury Department Releases
Treasury Department Regulation

Approved unanimously.

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Letter prepared for Chairman Eccles' signature to the Honorable Jesse P. Wolcott, Chairman of the Committee on Banking and Currency of the United States House of Representatives, reading as follows. The letter is a revision of the letter approved by the Board on January 10, 1947, and incorporated a reference to the statement contained in the President's budget message.

"The Board of Governors of the Federal Reserve System recommends the enactment of the enclosed bill to repeal section 13b of the Federal Reserve Act, containing the existing industrial loan authority of the Federal Reserve Banks, and to amend section 13 of the Federal Reserve Act in order that the Reserve Banks may continue to guarantee loans to business enterprises but on a more effective basis.

"The bill, in repealing section 13b, would require the return by the Federal Reserve Banks of all funds theretofore 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 repeal of section 13b, coupled with the requirement for the return by the Reserve Banks of the funds received from the Treasury, would carry out the recommendation of the President, contained in his Budget Message for 1948, reading as follows:

'The Board of Governors has made a further recommendation, in which I also concur, that the Congress repeal the existing, largely dormant, authority of the Federal Reserve banks to make direct loans to industry, releasing to the Treasury the funds reserved for this purpose. The gold increment fund now includes 112 million dollars reserved for such loans, and an added 28 million dollars has been advanced to the Federal Reserve banks. These sums will be transferred to miscellaneous receipts.'

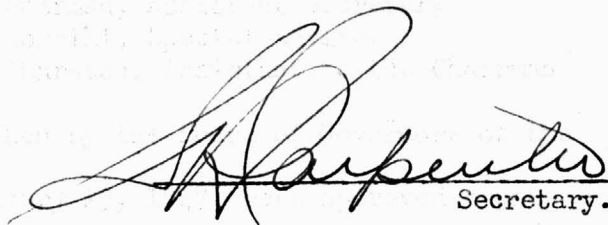
"In the judgment of the Board, it is also important that the authority of the Federal Reserve Banks to render assistance in financing business enterprises

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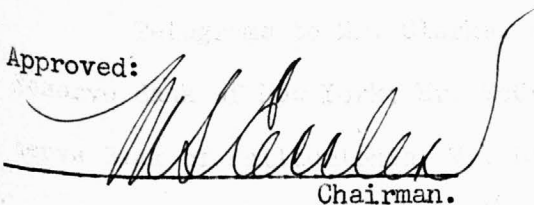
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"as contained in the proposed bill be available whenever conditions are such that it is needed. The reasons for the Board's recommendation of this bill are fully explained in the enclosed statement with respect to this matter. The Board hopes that the proposed bill will receive the favorable consideration of the Committee on Banking and Currency."

Approved unanimously.


Secretary.

Approved:


Chairman.