

Minutes of actions taken by the Board of Governors of the  
Federal Reserve System on Thursday, February 20, 1947.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Thurston, Assistant to the Chairman

Minutes of actions taken by the Board of Governors of the  
Federal Reserve System on February 19, 1947, were approved unanimously.

Memorandum dated February 18, 1947, from Mr. Bethea, Director  
of the Division of Administrative Services, recommending that the  
resignation of Mrs. Rose L. Williams, a cafeteria helper in that  
Division, be accepted to be effective, in accordance with her re-  
quest, at the close of business February 28, 1947, with the under-  
standing that a lump sum payment would be made for annual leave  
remaining to her credit as of that date.

Approved unanimously.

Letter to Mr. Douglas, Vice President of the Federal Reserve  
Bank of New York, reading as follows:

"In view of the circumstances described in your  
letter of February 14, 1947, the Board of Governors  
approves the continuation of Mr. Aloysius J. Stanton  
in his present assignment as Senior Clerk "TA", ad-  
justment and Remittance Accounts Section, Accounting  
Division, Accounting Department, for a further period  
ending December 1, 1947.

"This approval is given with the understanding  
that the salary paid Mr. Stanton while serving in the  
temporary assignment will not exceed the salary he  
would be eligible to receive in the position he oc-  
cupied at the time he was given his present assignment."

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Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves the payment of salary to Mr. K. Brantley Watson as Director of Personnel of the Federal Reserve Bank of Richmond for the period ending May 31, 1947, at the rate of \$9,000 per annum, which is the rate fixed by the Board of Directors as reported in your letter of February 15, 1947. Please advise us as to the date when Mr. Watson enters upon the performance of his duties as Director of Personnel."

Approved unanimously.

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

"In accordance with the request contained in your letter of February 14, 1947, the Board approves the appointment of J. L. Hardin as an assistant examiner for the Federal Reserve Bank of Atlanta at a salary rate of \$4,200 per annum. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"In your letter of January 22, 1947, with reference to the application for membership of the Bank of Sheridan, Sheridan, Montana, approved by the Board of Governors on December 6, 1946, you request that final instructions be given you after the question of acceptability of management has been resolved satisfactorily in consultation with the Washington office of the Federal Deposit Insurance Corporation.

"Your letter indicates your impression that the Board approved the application with the understanding that the question of management would be resolved satisfactorily

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"to the Board of Governors' Division of Examinations before the letter of approval was transmitted to the applicant bank. This impression is erroneous as the Board approved the application with the understanding that the question of management would be resolved 'in a manner satisfactory to the Reserve Bank, in consultation with the Board's Division of Examinations . . .'

"When the application was approved the Board's Division of Examinations advised the Reserve Bank by telephone of the reason for handling the matter as proposed in the Board's letter of December 6, 1946, to President Peyton regarding the approval of the application. Since your letter of January 22 was received, the matter has been the subject of telephone conversations by Mr. Leonard of the Board's Division of Examinations with you and with Vice Presidents Swanson and Preston.

"In view of the fact that agreement has not yet been reached as to the handling of the matter in accordance with the action of the Board of Governors, it is suggested that, unless the Reserve Bank is able to work the matter out in accordance with the suggested procedure, the matter be held in abeyance for discussion with President Peyton later in the month when he will be in Washington for the coming Conference of Presidents."

Approved unanimously.

Letter to the Honorable Charles W. Tobey, United States Senate, reading as follows:

"I have your letter of February 10 asking for my reaction to a number of questions which some of your banking friends in New England have raised with regard to S. 408 recently introduced by you.

"Paragraph 2 of the present Section 13b of the Federal Reserve Act authorizes the Federal Reserve Banks to discount for or purchase obligations from any bank, trust company, mortgage company, credit corporation for industry, or other financing institution. In S. 408, we thought the term 'financing institution' would be adequate. This term was also used in Executive Order 9112 and in the Contract Settlement Act with respect to guarantees through the Federal Reserve System of war production loans and loans to finance settlement

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"of war contracts. Generally speaking, of course, the term is sufficiently broad to cover any type of institution engaged in the business of making loans, but under its power of regulation the Board of Governors could limit the term to such extent as might be deemed desirable. The Board believes that it would be better to retain the term 'financing institution' in the proposed legislation in order that guarantees could be provided in meritorious cases to the smaller nonmember banks and to agencies organized for the purpose of granting assistance to small business enterprises. In the past, we have received relatively few applications for guarantees from lending institutions other than banks. Only eight private institutions other than banks received guarantees of war production loans under Executive Order 9112 (Regulation V).

"The Board has on a number of occasions given considerable thought to the advisability of incorporating in the Law a limit on the interest rate that could be charged on a loan guaranteed in part by a Federal Reserve Bank and has always come to the conclusion that it is much preferable to leave such matters to regulation in order to provide sufficient flexibility. If a 6 per cent rate were incorporated in the Law there would be a tendency for banks, particularly in the smaller communities, to charge that rate on loans which in many instances at least should be made at a lower rate. At the present time the maximum rate that may be charged on a loan guaranteed by a Federal Reserve Bank under Section 13b is 5 per cent, which seems to be adequate under conditions that now exist.

"In administering guarantees of war loans for the Army, Navy and Maritime Commission under Executive Order 9112, the Board found that flexibility in this respect was very desirable. The Board also found, after considerable experience with guaranteed war production loans, that it was desirable to have charges for guarantees fixed at a definite percentage of the interest charged borrowers by the lending institutions, and to have the fee graduated upward as the percentage of the loan guaranteed increased. For example, the fees payable to the guarantor by financing institutions in effect during the latter part of this program were as follows:

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"FEES PAYABLE TO GUARANTOR  
BY FINANCING INSTITUTIONS

Percentage of loan <u>guaranteed</u>	Guarantee fee (In terms of per- centage of amount of interest payable <u>by borrower)</u>
80 or less	10
85	15
90	20
95	30
Over 95	50

At that time the maximum rate of interest that could be charged borrowers by financing institutions on loans guaranteed under Regulation V was 4-1/2 per cent. It should be noted that while the above schedule of guarantee fees provided for guaranteed percentages up to 100 per cent, the pending bill limits the percentage which may be guaranteed to a maximum of 90 per cent.

"While Section 2 of the Federal Reserve Act provided that stock in the Federal Reserve Banks could have been allotted to the United States upon the organization of the Reserve Banks if the stock subscriptions of banks and the public were insufficient to furnish the required amount of capital, no such stock was ever offered or sold to the United States or the public. The entire capital stock of the Federal Reserve Banks has always been owned by the member banks. In this connection I should like to point out, however, that Section 7 of the Act provides that should a Federal Reserve Bank be dissolved or go into liquidation any surplus remaining after the payment of all debts, dividend requirements, and the par value of the stock shall be paid to and become the property of the United States.

"With respect to other loaning agencies of the Federal government, I think you may be interested in the table entitled 'Government corporations and credit agencies' appearing on page 70 of the Federal Reserve Bulletin for January 1947, a copy of which is enclosed herewith. The question as to what changes, if any, should be made in the lending authority of these agencies is a matter which would require very careful and detailed consideration.

"With very best regards."



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Approved unanimously.

Letter to Mr. John Y. Beaty, Editor, Bankers Monthly,  
536 South Clark Street, Chicago, Illinois, reading as follows:

"Your interest in encouraging membership in the Federal Reserve System, as expressed in your letter of December 23, 1946, to Mr. Morrill, is much appreciated and it is a pleasure to outline the principal reasons for and advantages of membership in the System.

"The Federal Reserve System is an essential part of our banking machinery, designed and operated to serve credit needs and facilitate the daily operations of commercial banks. The seven thousand banks, national and State, that are members of the System hold approximately 86 per cent of commercial bank deposits. Because of the number, representative character, and standing of the banks that choose to operate as members of the System, it seems evident that membership carries with it dignity and prestige.

"One of the primary purposes of the System was to provide more adequate sources of bank reserves, besides affording means of rediscounting commercial paper, furnishing an elastic currency and establishing a more effective supervision of banking. The functioning of the Reserve Banks for service rather than for profit is an essential characteristic of the System.

"In recent years, open market operations have been the principal means by which the Federal Reserve authorities provide the banking system as a whole with increased reserves. These operations have been especially important in facilitating the financing of the war on such terms as would keep down the cost of the public debt to taxpayers and at the same time protect the owners of Government securities, including member banks, from depreciation. The main purpose of Federal Reserve functions, like that of Governmental functions in general, is the public good. It is to maintain monetary conditions favorable for an active and sound use of the country's productive facilities, maximum employment, and a rate of consumption reflecting prosperous conditions.

"Although member banks rightly may feel that they should contribute to the greater effectiveness of the Federal Reserve System by being members of it, their membership carries with it a number of specific advantages, some of which are outlined below:

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"Credit Extensions. Member banks may rediscount eligible paper, or borrow on their own notes secured by eligible paper, by United States obligations, or by any other sound assets. Such facilities have been availed of to a great extent in the past and conditions may arise in the future when they will be of utmost importance.

Supplying Currency and Coin. Upon request the Reserve Banks furnish member banks with currency and coin. Shipping charges, including insurance, on currency and coin shipped to and returned by member banks, are borne by the Reserve Banks. Due to the location of the Reserve Banks and branches in leading cities throughout the United States currency and coin can be delivered promptly, which permits member banks to keep their vault cash at a minimum.

Collection of Checks. Member banks may make use of the Nation-wide check clearing system maintained by the Federal Reserve Banks, which collect for member banks without charge checks drawn on all par banks in the United States. Collection of checks through this system has reduced materially the average time required to collect out-of-town checks.

Collection of Noncash Items. Federal Reserve Banks receive from their members for collection such items as notes, drafts, acceptances, bonds, coupons, etc. No charge is made for such service except in the case of unprotested items returned unpaid and, in a few cases, items with securities attached.

Telegraphic Transfers of Funds. Through the wire facilities of the Federal Reserve System telegraphic transfers of funds in multiples of \$1,000 are made from a member bank to a member bank without charge. Telegraphic transfers of funds in any amount will also be made for and paid to a member bank for the account of any individual, firm or corporation at a cost not to exceed the commercial rate for the telegram involved.

Safekeeping of Securities. Reserve Banks furnish safekeeping facilities to member banks under certain conditions and upon request, clip coupons and collect maturing coupons. No charge is made for these services.

Purchase and Sale of Securities. Orders for the purchase and sale of securities for member banks are handled by most of the Federal Reserve Banks. No charge is made for this service.

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"Informational Services. The Federal Reserve Banks mail to their member banks each month a review of conditions in their districts and the Board of Governors furnishes member banks the monthly Federal Reserve Bulletin. Through these media and through other publications or direct communications in various forms member banks are given the results of special studies, current financial information, and statistical analyses which they may apply comparatively.

Advisory Services. A member bank may consult with the officers of its Federal Reserve Bank upon any of its banking problems. The Federal Reserve Banks are not operated for profit but are under obligation to render service in the public interest.

Examinations. Examinations of State member banks are made periodically, without charge, by examiners for the Federal Reserve Banks. Such examinations are ordinarily made jointly with State banking authorities in order to avoid duplication of examinations and minimize inconvenience to the bank examined. The Board of Governors and the Reserve Banks consider the problems of member banks in a helpful spirit and practical manner with a view to the public interest and the development of the individual institution, and it is believed that their supervisory policies have been of genuine assistance to members.

"With respect to the names of member banks with which you might communicate, President Young of the Federal Reserve Bank of Chicago has been requested to discuss the matter with you, with a view to determining the number of inquiries you would like to make and any special information you would like to develop. The Board of Governors will be glad to participate, to whatever extent you and President Young may consider desirable, in furthering the purposes of your inquiry."

Approved unanimously.

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

"Reference is made to your letter of February 6, 1947, concerning the conversion of the electric power in your building from direct current to alternating current and the plans for modernizing the elevator system.



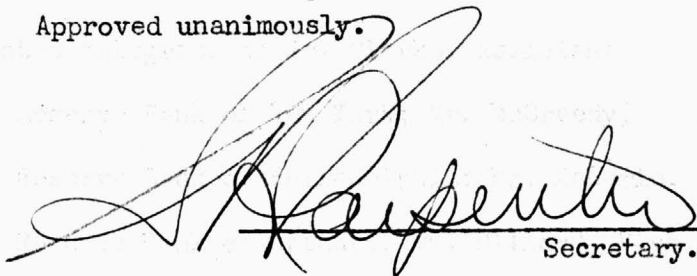
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"It is noted that the cost of the electric conversion work is estimated at \$331,500, of which about \$200,000 will be chargeable against the Bank, and that in connection with the conversion it will be necessary under the Building Code to install car doors on your elevators which, with the application of alternating current to the present elevators, would cost about \$72,000, with an estimated salvage of \$31,000 should a fully modern installation be made at a later date.

"You state that your directors have authorized the installation of a completely modern elevator system as soon as the necessary equipment is available. The Board has considered the proposal and will interpose no objection to the modernization of your elevator system at a cost of approximately \$270,000, assuming that the work will not take place until building conditions are somewhat improved. It is understood that it would cost only about \$15,000 to adapt the modernized elevator installation to additional floors when they are constructed."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.