

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 26, 1947.

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

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 February 25, 1947, were approved unanimously.

Memorandum dated February 24, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Miss Violet M. Rice, an employee in that Division now on military leave, be accepted to be effective at the close of business March 1, 1947.

Approved unanimously.

Letter to the Honorable Edward H. Rees, Chairman of the House Committee on Post Office and Civil Service, House of Representatives, reading as follows:

"This letter is in response to yours of February 19, 1947, addressed to Chairman Eccles transmitting the request of the House Committee on Post Office and Civil Service for a chart giving information regarding employees separated by reduction in force.

"During the war the Board's staff did not expand; in fact because of the unavailability of qualified personnel the number of employees declined somewhat during the early war years and in some instances the organization was understaffed throughout the war. This situation, together with the normal turnover of personnel,

2/26/47

-2-

"has made it possible since V-J Day to reinstate all employees who were granted military leave, and who applied for reinstatement upon return from military service, without the necessity of separating other employees."

Approved unanimously.

Letter to Mr. Johns, Vice President and Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves the reappointments of Messrs. D. Bruce Forrester, Thomas McNally, and Mason L. Thompson as members of the Industrial Advisory Committee for the Tenth Federal Reserve District to serve for terms of one year each beginning March 1, 1947, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Kansas City, as reported in your letter of February 18, 1947.

"As you know, section 13(b) of the Federal Reserve Act requires that the Industrial Advisory Committee at each Federal Reserve Bank shall be composed of not less than three nor more than five members as determined by the Board of Governors. Although the Board's Regulation S provides that each such Advisory Committee shall consist of five members, the Board will interpose no objection to the decision of your Board of Directors not to fill at this time the two present vacancies on the Committee for your district in view of the small volume of industrial loan activity at your Bank during the past year."

Approved unanimously.

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

"Reference is made to your letter of February 14, 1947, submitting the request of the Harvard Trust Company, Cambridge, Massachusetts, for approval of the establishment of a branch in Arlington, Massachusetts, in connection with the proposed absorption of the Menotomy Trust Company, Arlington, Massachusetts.

"The Board of Governors concurs in your opinion that the proposed transaction will not result in a

2/26/47

-3-

"change in the general character of the assets of the Harvard Trust Company or broadening in the functions exercised by it within the meaning of condition of membership numbered 2 to which it is subject.

"In view of your recommendation, the Board approves the establishment and operation of a branch in Arlington, Massachusetts, by the Harvard Trust Company, Cambridge, Massachusetts, provided the proposed merger with the Menotomy Trust Company is effected substantially in accordance with the agreement submitted and the prior approval of the appropriate State authorities is obtained; and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to effect the absorption and establish the branch."

Approved unanimously.

Letter to Mr. Peterson, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of February 21, 1947, submitting a copy of the resolution adopted by the Board of Directors of the First Trust and Savings Bank, Paris, Tennessee, signifying its intention to withdraw from membership in the Federal Reserve System and a copy of the President's letter requesting waiver of the six months' notice usually required.

"In view of your recommendation, 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 First Trust and Savings Bank, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon. It is noted that you assume that the bank will wish the termination of its membership to coincide with its acceptance for insurance by the F.D.I.C., and are seeking to clarify that point. If application for continuation of insurance is made, the bank will have four months from the date of this letter to accomplish termination of its membership (F.R.L.S. #3548).

"Please advise the Board of Governors when cancellation is effective and refund is made. The Certificate of Membership issued to the bank should

2/26/47

-4-

"also be obtained, if possible, and forwarded to the Board. The 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.

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

"Your letter of February 14, 1947 enclosed a copy of a letter from Paine, Webber, Jackson & Curtis inquiring whether a customer having an ordinary margin account with a broker may deposit listed securities with the broker in a Special Miscellaneous Account under section 4(f)(6) for the protection of the broker, and whether, when the securities are no longer needed for the protection of the broker, the customer may withdraw them, it being understood that the securities deposited in the Special Miscellaneous Account may not be considered in computing the margin required by the regulation for additional purchase of securities or otherwise in computing the balance in his General Account under section 3 of the regulation.

"Paine, Webber, Jackson & Curtis are correct in their assumption that this is permissible. Section 4(a) of the regulation provides, 'if a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account.' Regulation T does not require the broker to sell the collateral when it decreases in value, and conversely it does not forbid the arrangement described above which is entered into for the broker's protection irrespective of the regulation. This conclusion is in harmony with the ruling published in the July, 1940 Federal Reserve Bulletin at page 647."

Approved unanimously.

2/26/47

-5-

Letter to Mr. Thomas F. Kelly, Chairman of the National Affairs Committee, Vacuum Cleaner Manufacturers Association, 1070 East 152nd Street, Cleveland 10, Ohio, reading as follows:

"This will acknowledge your letter of February 19, 1947, with further reference to the petition of your committee for the elimination of vacuum cleaners from the list of articles subject to Regulation W.

"We have noted the statistics issued by your association covering manufacturers' sales. In this connection we would like to ask you about the figure for December. 'Retailing' for January 27 reports this as 256,364 units while your letter indicates 265,364 units. Evidently there has been a transposition in one or the other. We should appreciate your letting us know the correct figure so that our records will be accurate.

"Whatever may have been the actual number sold in December, there would appear to be little evidence as yet of a slowing up in demand at the consumer level. You may be sure, however, that we shall be on the watch for such evidence as one of the factors, though of course not the only one, bearing on the question that your committee has presented to us."

Approved unanimously.

Letter to the Honorable John H. Fahey, Commissioner of the Federal Home Loan Bank Administration, reading as follows:

"The Board has received from one of the Federal Reserve Banks the following excerpt from a letter which the president of a national bank addressed to the Federal Reserve Bank:

'In the last several weeks, we have lost substantial parts of several balances of Federal Building and Loan Associations to the Federal Home Loan Bank at Cincinnati. Our customers tell us that not only has the business been solicited by the Home Loan Bank, but they have been offered and are being paid interest on certification of deposit by the Federal Home Loan Bank. It seems to us quite inconsistent that a

2/26/47

-6-

"government instrumentality should be allowed to pay interest on deposits when commercial banks are prohibited from doing so (wisely, I am sure) except in bona-fide thrift accounts, and too, that a governmental agency should actively solicit the transfer of funds from the community in which the deposit arises, to the detriment of the community and the financial institutions which are designed to serve them.

'I am confident that it has never occurred to the Federal Reserve Bank to offer to pay interest on deposits to its member banks, and I see no reason why the Federal Home Loan Bank should be permitted to pursue such a policy. We all recognize the value, under certain circumstances, of the Federal Home Loan Banks, particularly, when the stock purchases are to be treated as demand deposits, but we cannot understand why pressure should be brought by this bank to deprive local banks of deposits which logically belong to them, and through pressure, make it almost impossible for their members to borrow from other local banks. I do not know what is to be done about this matter, but I think it should have the attention of all of us.'

"We note that under the rules and regulations of the Federal Home Loan Bank System no interest shall be paid on demand deposits, but presumably interest is paid on time deposits where the right is reserved to require 30 days' written notice of intention to withdraw. It is not clear whether the mere reservation of the right to require written notice makes the time deposit substantially different from a demand deposit or whether as a matter of actual practice such deposits are subject to check.

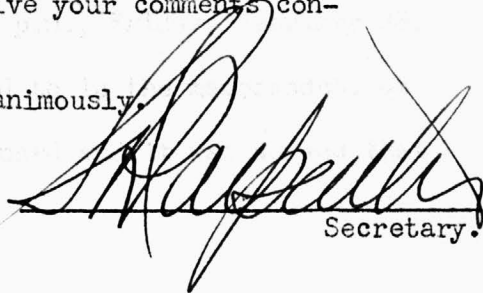
"We will be pleased to receive your comments concerning this matter."

Approved unanimously.

Approved:



Chairman.



Secretary.