

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 24, 1947.

PRESENT: Mr. Draper, Chairman pro tem
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 April 23, 1947, were approved unanimously.

Memorandum dated April 22, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending, for the reasons stated in the memorandum, that the official headquarters of R. W. Cooke, an Assistant Federal Reserve Examiner in that Division, be changed from Chicago, Illinois, to Washington, D. C., effective today.

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 April 15, 1947, the Board of Governors approves the payment of salary to Mr. Adolphus D. Wilburn, an Assistant Examiner, at the rate of \$4,000 per annum effective April 1, 1947.

Approved unanimously.

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

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"Reference is made to your letter of April 10, 1947, submitting the request of the Industrial Trust Company, Providence, Rhode Island, for approval of an additional investment of \$225,000 in banking premises to be expended in the following manner: \$175,000 for completion of the Elmwood Branch building; \$25,000 for enlargement of the Wickford Branch premises; and \$25,000 for acquisition of a site for the Apponaug Branch.

"In accordance with your recommendation, the Board of Governors approves the additional investment of \$225,000 in banking premises by the Industrial Trust Company for the purposes above indicated.

"Referring to the statement contained in the last paragraph of your letter, while it is recognized that it has been customary to accept the book value placed by the bank itself upon investment in bank premises, in view of the specific language of the law on this subject, it is felt that when bank premises are carried on the books at an amount equal to the bank's capital the Board's approval should be obtained where any additional investment is made, even though the additional amount is not capitalized."

Approved unanimously.

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

"This refers to your letter of April 15, 1947, regarding the status under Regulation U of certain loans which the National Shawmut Bank proposes to make.

"It appears that there is a certain trust with assets consisting solely of stock of a closely held corporation, these trust assets having a present value of about \$1,000,000. The stock is registered on a national securities exchange but does not have a wide market and cannot be readily sold in large blocks.

"Under the terms of the trust instrument the trust may be dissolved only when the stock has been disposed of by the trustee. The beneficiaries of the trust, of whom there are four, wish to get possession of the stock. They feel that they can then sell all or part of it and replace it by other investments, thus diversifying the

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"investment. The trustee is willing to sell the stock to the beneficiaries, and then to petition the court for permission to dissolve the trust. If this permission were granted, the trustee would then distribute the assets pro rata to the beneficiaries. The assets so distributed would be the proceeds of the previous sale of the stock.

"Two of the beneficiaries do not have sufficient cash to purchase the stock from the trust, and the National Shawmut Bank wishes to make loans to these beneficiaries to enable them to purchase the stock. The loans would be secured, at least in part, by the stock. To supply additional security for the loans, the borrowers would like to assign their pro rata interests in the trust, that is, their interests in the cash that would be held by the trust after it sold the stock. Every effort would be made to dissolve the trust promptly, and to repay the loans from the amounts received as a result of the dissolution.

"The bank wishes to know whether the loans would be subject to Regulation U. If they would be, it wishes to know whether in the circumstances it could assign 'good faith' loan value, under section 1 of the regulation, to a beneficiary's assignment of his trust interest.

"No copy of the trust instrument was provided, and there is no indication of the State law on certain questions. Therefore, certain phases of the matter are not entirely clear. For example, it is not clear whether the proposed loans are considered the only feasible method of carrying out the plan. However, certain general observations may be helpful in connection with the matter.

"The Board agrees with your view that the proposed loans appear to be subject to Regulation U, and that no exemption in section 2 would seem to apply.

"Without more information we cannot give an exact answer to the question whether good faith loan value could be assigned to a beneficiary's trust interest. We can state, however, that such loan value can only be assigned to 'collateral', and that in general this means property which is of such nature that it really can be transferred, pledged, or mortgaged.

"If the trust interest may properly be considered to be 'collateral', it would seem to be reasonable here to assign good faith loan value to it. This, of course, is on the assumption that all the facts are as indicated, including the fact that if such good faith loan value were assigned, the

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"trust would contain only cash. If it contained stocks there might be a question whether the trust interest did not represent 'stocks' instead of 'collateral other than stocks.'"

Approved unanimously.

Telegrams to the Presidents of all the Federal Reserve Banks except New York reading as follows:

"In order that all member banks might have the full statement of reasons for the action of the Board of Governors in establishing an interest rate on Federal Reserve notes, it has been suggested that the Federal Reserve Banks may wish to consider the advisability of sending a copy of the Board's press release to each of their member banks. It is expected that the statement will be published in the May issue of the Federal Reserve Bulletin but it might be helpful to member banks if they could have the statement currently. If it should appear to you to be desirable to send a copy of the statement to each of the member banks in your district it would meet with the approval of the Board."

Approved unanimously.

Letter to Mr. F. J. Bailey, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This refers to your letter of April 23, 1947, addressed to Chairman Eccles, enclosing a facsimile of the enrolled enactment of Congress of H. R. 2413, a bill 'To amend the Federal Reserve Act, and for other purposes,' and inquiring whether there is any objection to its approval by the President.

"This bill would amend section 14(b) of the Federal Reserve Act to authorize the Federal Reserve Banks, until July 1, 1950, to purchase Government securities directly from the United States, subject to the limitation that the amount of such securities so purchased and held by the Federal Reserve Banks at any one time shall not exceed \$5,000,000,000. This power, which was granted temporarily by the Second War Powers Act of 1942, expired by its terms on March 31, 1947.

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"The authority of the Reserve Banks to make direct purchases from the Treasury has proved to be a useful and convenient mechanism to facilitate Treasury operations and to effect temporary adjustments in the money market. The authority provides the Treasury with a source to which it may turn to obtain funds in a substantial amount on little notice to meet temporary situations and contingencies, ordinarily around income-tax payment dates, and, accordingly, it makes it possible for the Treasury to operate with a smaller cash balance than might otherwise be necessary. Moreover, with a huge public debt, much of it in short maturities, frequent periodic refunding operations are necessary; and this situation will hold true for years to come. To have an uncertain or periodically tightened money market in such circumstances would be both impracticable and needless.

"For the reasons indicated, the Board favors the bill H. R. 2413 as passed by the Congress and enclosed with your letter and earnestly hopes that it will be approved by the President."

Approved unanimously.

Memorandum dated April 24, 1947, from Messrs. Thomas and Parry, Directors of the Divisions of Research and Statistics and Security Loans, respectively, recommending that the publication of a special chartbook on consumer credit statistics be authorized. The memorandum stated that the initial printing proposed was 1,500 copies, that the estimated cost of this edition was about \$345, and that printing expense of the chartbook up to \$1,000 is included in the budget of the Division of Research and Statistics for 1947. The memorandum further stated that approximately 500 copies of the first printing would be allocated to appropriate free distribution and that

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other copies would be sold at 50 cents for single copies and 35 cents in quantities of ten or more.

Approved unanimously.

[Handwritten signature: Carpenter]
Secretary.

Approved:

[Handwritten signature: Ernest G. Draper]
Chairman pro tem.