Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 13, 1947. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Bethea, Director of the Division of Administrative Services
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration

Reference was made to a draft of a letter to the Presidents of all Federal Reserve Banks, prepared by Mr. Smead pursuant to the action taken at the meeting of March 28, 1947, requesting that the Banks submit preliminary plans and cost estimates for any new construction or major alterations contemplated at head offices or branches within the next few years.

Chairman Eccles stated that on his visit to the West Coast recently he had talked with Mr. Frank, Chairman of the Portland Branch board of directors, that Mr. Frank had told him the Portland Branch would face a critical situation for quarters in the near future because the lease on the present space expired at the end of this year and could not be renewed, that there was no other suitable space in Portland available for lease, and that emergency measures were necessary to provide the Branch with facilities as promptly as possible. Chairman Eccles added that he understood the need for space at the Seattle Branch also was pressing although it was not so critical as at Portland, and that he understood some other branches might be faced with emergency construction. He suggested that full information be obtained on branch building needs that might be of an urgent nature so that the Board could suggest the necessary legislation to the Congress.

Mr. Vest stated that Senator Sparkman had introduced a bill (S. 1225) which would remove the limitation on expenditures for Federal Reserve branch buildings in the manner recommended by the Board to the Chairmen of the Senate and House Banking and Currency Committees but which had not yet received favorable action, and that the Board had been asked for a report on the Sparkman bill.

Mr. Carpenter then reported that Messrs. Brainard and Gidney, Chairman and President, respectively, of the Federal Reserve Bank of Cleveland, had asked for an opportunity to come to Washington on Wednesday or Thursday of this week to talk with the Board regarding the possible purchase of the Chamber of Commerce Building in which the Cincinnati Branch occupies space. He also referred to a memorandum prepared by Mr. Smead under date of May 12, 1947, which pointed out that the Cleveland

Bank owned the lot on which the building stands, that the building was constructed by the Cincinnati Chamber of Commerce in 1925, that the Chamber of Commerce was now willing to sell the building for an amount about equal to original cost less depreciation, and that the Cleveland Bank held an option to purchase the building which would expire on July 17, 1947.

In response to a question from Chairman Eccles, Mr. Vest said that in his opinion the statutory limitation on expenditures for the erection of buildings proper to house the branches of Federal Reserve Banks would not apply literally to the purchase of a building already erected, but that the legislative history of the provision indicated it was the intent of Congress to place a limit on costs of branch buildings, and that it would be preferable to have specific authority from Congress for the purchase of the Cincinnati building. In that connection, Mr. Smead said that some years ago Congress was asked to authorize the purchase of a building for the Buffalo Branch, which might be regarded as somewhat of a precedent.

It was the consensus of the members of the Board present that it would be undesirable for the Cleveland Bank to purchase the Cincinnati Chamber of Commerce Building without obtaining authority from Congress, particularly in view of the fact that legislation introduced at this session of Congress which would remove the limitation had been rejected by the House Banking and Currency Committee.

Mr. Carpenter said that the draft of proposed letter to the Federal Reserve Banks requested information on additions to or alterations of head office as well as branch buildings, that the request would require the Banks to employ architects to prepare preliminary plans and specifications in any case where such plans had not been undertaken already, and that there was a question whether the Board wanted to require the preparation of such information in connection with the head offices at this time.

Mr. Smead stated that the Board now had general information as to the needs of the head offices and sufficient information on the needs at the branches to be able to determine where emergency requirements for additional space might arise in the near future, and that the Portland situation was probably the most critical one.

There was a discussion of whether any general letter to the Banks was required at this time or whether the request for additional information might be limited to urgent situations. Chairman Eccles stated that he felt the urgent cases should be brought to the attention of Congress promptly in the hope that legislation might be passed at this session to permit construction or purchase of some buildings, that this did not seem an appropriate time to make a general survey of future building needs at all Federal Reserve Banks and branches, particularly in view of the fact that some fiscal agency activities probably would be transferred from the branches to head offices and space requirements might change considerably in the near future, and that it would seem preferable to ask the Federal Reserve Banks only for information on urgent construction needs so that the Board could answer inquiries that might arise if legislation were introduced to permit such construction.

In a discussion of proposed procedures in connection with possible legislation, Chairman Eccles suggested that the most desirable course would be to ascertain from Chairman Wolcott of the House Banking and Currency Committee, which had rejected the Board's earlier proposal for removing the existing statutory limitation on expenditures for branch buildings, (1) whether there was now a prospect that such a bill might be passed by the House; (2) if not, whether he (Chairman Wolcott) would introduce and whether there was a chance of passage of a bill authorizing aggregate expenditures during the next year or so of $10 or $15 million for the construction (exclusive of the cost of vaults, permanent equipment, furnishings and fixtures) or purchase of Federal Reserve branch bank buildings; and (3) if neither of these alternatives appeared feasible, to inform Chairman Wolcott that emergency situations existed at certain branches of Federal Reserve Banks which would be brought to the attention of Congress in order that the necessary legislation might be passed authorizing the construction or purchase of branch bank buildings essential for the continued efficient operation of the branches.

It was agreed unanimously (1) that no general letter asking for preliminary plans and cost estimates should be sent to the Federal Reserve Banks at the present time, but that Mr. Smead should obtain such additional information as was necessary relating to urgent building needs of Federal Reserve branches; (2) that Messrs. Brainard and Gidney should be informed that the Board would be glad to discuss with them at 10:30 a.m. on Thursday, May 15, 1947, the question of the purchase of the building in which the Cincinnati Branch now occupies space; and (3) that Chairman Eccles would talk with Representative Wolcott informally and obtain his views with respect to the feasibility of legislation at this session of Congress as outlined above, and that a reply to the request for comments on the Sparkman bill (S. 1225) be deferred until Chairman Eccles had discussed the matter with Representative Wolcott.

Chairman Eccles reported that, as agreed at the meeting on April 11, 1947, he had talked by telephone with Mr. Stettinius regarding the possibility of his appointment as a Class C director of the Federal Reserve Bank of Richmond for the unexpired portion of the term ending December 31, 1949, with the understanding that he would be made Chairman and Federal Reserve Agent on January 1, 1948 or 1949, depending on what could be worked out with Mr. Wysor, whose term as a Class C director did not expire until December 31, 1948. He said that Mr. Stettinius seemed interested in the appointment, and that he asked for time to consider what rearrangements in his personal affairs would be necessary to permit him to accept the appointment and attend meetings. Chairman Eccles went on to say that, while he was on the West Coast, Mr. Stettinius called at the Board's offices and talked with Messrs. Evans and Thurston regarding the appointment, and said that it would assist him in arranging certain personal affairs and in explaining why he could not accept a corporation chairmanship if he could say that he was accepting appointment as a Class C director with a view to becoming Chairman at a later date. Mr. Thurston had gotten the impression from the conversation that Mr. Stettinius expected to be designated as Chairman, effective January 1, 1948.

There was a discussion of the procedure that might be followed in the matter from this point and of whether it would be advisable to indicate to Mr. Wysor at this time that he would not be designated as Chairman and Federal Reserve Agent for the year 1948.

Mr. Evans suggested that he might talk with Mr. Wysor informally and say that the Board did not want to embarrass him in any way, that if the designation of Mr. Stettinius as Chairman for 1948 would be unsatisfactory to Mr. Wysor the Board would not make the designation until 1949, but that if Mr. Wysor thought that Mr. Stettinius' designation would be a good thing the Board would make it effective January 1, 1948.

There was also a discussion of the question whether, if Mr. Stettinius felt he could not be at the Bank at least twice a month, the appointment should be made.

It was agreed unanimously that Chairman Eccles should talk with Mr. Stettinius again and advise him substantially as follows:

That the matter had been discussed further by the Board, that Mr. Wysor had been appointed Chairman for this year after having served as Deputy Chairman for several years, that Mr. McCormick of Baltimore had succeeded Mr. Wysor as Deputy Chairman, and that to ask Mr. Wysor to give up his Chairmanship and continue only as a Class C director might make him feel he was being asked to step out and might be the cause of resentment. In these circumstances the Board felt that it would be preferable not to make a change in the existing situation until Mr. Wysor's term as a Class C director expired at the end of 1948 when a vacancy in the Chairmanship of the Bank would arise in the usual course. The Board hoped that Mr. Stettinius would be able to accept appointment as a Class C director and attend meetings once a month with the understanding that he would be appointed Chairman of the Richmond Bank effective not later than January 1, 1949, at which time he would arrange his affairs to be at the Bank at least twice a month. It was also understood that if Mr. Stettinius was not willing to consider the appointment on any other basis than that he would be appointed Chairman as of January 1, 1948, the Board would reconsider the matter and decide whether it would talk with Mr. Wysor about his not continuing as Chairman after this year.

Mr. Evans referred to a memorandum prepared by Mr. Bethea under date of April 18, 1947, relating to the use of the leased telephone line from the Board's offices to the Federal Reserve Bank of New York via Philadelphia. He stated that a survey of the use of this line had been made at his request with the thought that a substantial saving to the System might be effected if the line could be discontinued, leaving one direct leased telephone line between the Board's offices and the Federal Reserve Bank of New York, that it was the consensus of division heads that the second line to New York via Philadelphia should be continued, and that the New York and Philadelphia Banks both felt the additional line was necessary.

There was a discussion of the desirability of limiting the use of the telephone lines to New York, and it was the consensus that, in view of the comments contained in Mr. Bethea's memorandum, no change in the leased wires should be made at this time.

Reference was made to a draft of a letter to Senator Revercomb, prepared in response to a routine request from his office for a report on a proposed bill (S. 1156) to establish a Missouri Valley Authority which among other things provided for the establishment of a committee to act in an advisory capacity to the Authority on certain matters and upon which the Board of Governors would have a representative. The draft of reply stated that the responsibilities and experience of the Board related chiefly to monetary and financial matters and that it was not in a position to comment on the bill other than to suggest that it not provide for representation of the Board on the advisory committee.

Chairman Eccles stated that he also had received a letter from Senator Murray, who introduced the bill, stating that he would like to discuss the bill with Chairman Eccles in the near future, and that in the meantime he had asked Mr. Dewey Anderson, who was handling the bill for him, to meet with experts from the Board's staff to discuss the provisions of the bill in some detail. Chairman Eccles went on to say that it seemed to him the Board should not take a position which might be interpreted as indicating that it had little or no interest in legislation which, if enacted, would have a marked influence upon economic and social developments in a large sector of the United States, and that he would suggest that a reply to the routine inquiry from Senator Revercomb be deferred and that Senator Murray be informed that while the Board had no direct responsibility in the field of the bill and therefore had no one in its organization who could be called expert in the important questions which the bill raises, the Board was interested in the questions and would be glad to have members of the staff available to confer with Mr. Anderson and give him any assistance they could.

It was agreed unanimously that (1) no reply to the routine inquiry received from Senator Revercomb asking for comments upon the bill should be made at this time, and that (2) Chairman Eccles should send a letter to Senator Murray along the lines suggested above, and that Messrs. Vest, Morrill, and Thurston should discuss the proposed legislation with Mr. Anderson.

At this point Mr. Townsend entered the meeting and Messrs. Smead and Bethea left.

Mr. Townsend stated that he had received word by telephone that the Department of Justice this morning had authorized the issuance of a writ of certiorari in the Peoples Bank case as requested in the Board's letter dated May 12, 1947, from Chairman Eccles to the Acting Solicitor General.

Messrs. Sherman, Thurston, Vest, Nelson, and Townsend then left the meeting.

Chairman Eccles stated that the Senate Banking and Currency Committee had called hearings on the bank holding company bill (S. 829) to begin on May 20, 1947, that the Board would not have an opportunity until that date to discuss with the Federal Advisory Council the views of the Council on the bill, and that, therefore, he had suggested that the hearings be postponed for a few days. He also related the circumstances surrounding the request which had been received while he was in the West from representatives of the bank holding company groups that a representative of the Board meet with them to discuss the provisions of the bill and certain suggestions that the representatives had to make in connection with it. In response to that request, he said, Mr. Townsend went to New York for that purpose and was able to outline the objectives of the bill and the extent of its coverage, but that he had made no commitments of any kind as to any suggested amendments. Chairman Eccles went on to say that he and Mr. Townsend were to meet with representatives of the holding company groups this week to discuss their proposed amendments so that when the hearings were held the Board would be in a position to say what, if any, of the amendments suggested by the bank holding company representatives, the independent bankers' associations, the Federal Advisory Council, or others, the Board would be willing to accept. He added that he understood that the American Bankers Association felt that it should take no official position with respect to the bill.

Mr. Evans stated that some of the members of the official staff of the Board would reach retirement age in the course of the next year or so, which presented to the Board certain problems with respect to their successors and possible changes that might be made in the organization of the staff in connection with such retirements. He said that the Personnel Committee had been giving some consideration to this matter, that it had no recommendations to make at the present time, but that the Committee would suggest that it be understood that the Committee would continue its studies in consultation with appropriate members of the staff and submit recommendations for consideration by the Board at such time in the future as in the judgment of the Committee action is called for.

The suggestion of the Committee was approved unanimously.

The action stated with respect to each of the matters hereinafter set forth was then taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 12, 1947, were approved unanimously.

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

"The Board of Governors has given consideration to your inquiry with regard to the applicability of standard condition of membership numbered 3, or a similar condition of membership, to the activity of two State member banks in your district, both of which are selling to other banks in some volume, without recourse, real estate mortgages which they will continue to service for a consideration.

"It is noted that both member banks are selling such mortgages at no premium, that each bank has now invested the aggregate amount in real estate mortgages it is permitted to invest under the limitations imposed by State law and that an active demand for such loans continues in the community served by each. However, these considerations do not appear to have a direct bearing upon the applicability of the condition of membership.

"A condition of membership having substantially the same effect as the present standard condition numbered 3 has been prescribed for all State banks applying for membership since March 1933. One of the practices that proved "most harmful to a number of banks in some sections had been that of selling real estate mortgages or participations therein to the general public with a guarantee expressed or implied, or in circumstances causing the purchasers to assume that such mortgages would be repurchased upon request. Often such obligations were sold without an expressed guarantee or even with the provision that they were sold without recourse but the issuing or selling bank had freely repurchased them upon demand over so long a time that the holders had been led to believe that they were, in fact, obligations of the bank payable on demand. In prescribing the condition of membership, the Board had in mind particularly sales of mortgages to the general public who were not in a position to evaluate real estate loans and might consider the bank at least morally obligated to make good any loss sustained.

"It is to be assumed that a bank or other financial institution, such as an insurance company, purchasing real estate loans from a bank, without recourse, is qualified to appraise such loans and would have no reason to feel that the selling bank acts as guarantor of the soundness of the investment. Therefore, the Board of Governors will not consider the sale of real estate mortgages by a State member bank to other banks or financial institutions, such as insurance companies, without recourse, as coming within the purview of standard condition of membership numbered 3, or a similar condition of membership.

"While the purpose and effect of the foregoing is to remove from the scope of the condition of membership transactions of the kind set forth, it should be noted that any abuses or unsafe or unsound practices arising in such activity remain subject to supervisory criticism and correction."

Approved unanimously.

Letter to Mr. T. Schlesinger, Vice President, Allied Stores Corporation, 1440 Broadway, New York, New York, reading as follows:

"This is with reference to your letter of May 3, 1947, in which you suggest that Regulation W be abandoned.

"It has not seemed to the Board that any change in the regulation would be advisable at the present time. With employment and incomes high and the supply of spendable funds excessive, credit beyond that now available could only waste itself in stimulating undesirable price rises and retarding needed price adjustments. Moreover, if consumers incur heavy debt at a time like the present when incomes are high, they will be faced with the problem of curtailing expenditures later when conditions may not be so favorable.

"As to the elimination of vacuum cleaners, the Board has concluded that no single article can be treated in a class by itself. The market is interdependent and a relaxation at one point amounts to a relaxation for the whole. Furthermore, it would not appear that terms of one-third down and fifteen months are unreasonably severe for vacuum cleaners in comparison with other items.

"We are glad to have your letter and assure you that the aspects you mention are having the careful consideration of the Board."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman.