

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 13, 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 June 11, 1947, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 12, 1947, were approved and the actions recorded therein were ratified unanimously.

Telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Chicago on June 9, by the Federal Reserve Bank of San Francisco on June 11, and by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on June 12, 1947, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 13, 1947, from Mr. Carpenter recommending that increases in the basic annual salaries of the following

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employees in that Division be approved, effective June 15, 1947:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Frances A. Burton	File Clerk	\$1,954.00	\$2,020.00
Helen E. Cook	File Clerk	2,394.00	2,469.24
Cora L. Hatch	File Clerk	2,544.48	2,619.72
Aline L. Yates	Index Clerk	2,694.96	2,770.20

Approved unanimously.

Memorandum dated June 10, 1947, from Mr. Carpenter recommending the transfer of Miss Marjorie Kidd, a page in the Division of Administrative Services, to the Office of the Secretary as a file clerk, effective June 15, 1947, with no change in her present basic salary of \$1,954 per annum. The memorandum also stated that the transfer had been discussed with and approved by the Director of the Division of Administrative Services.

Approved unanimously.

Memorandum dated June 6, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Mr. Murray S. Wernick, an economist in that Division, from \$4,902 to \$5,403.60 per annum, effective June 15, 1947.

Approved unanimously.

Memorandum dated June 10, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Lois Ingram as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,168.28 per annum,

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effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Miss Ingram would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated June 10, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Anne W. Johnson as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,394 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that Miss Johnson was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Letter to Mr. Grove, Economist in the Division of Research and Statistics, Board of Governors, c/o El Gerente General, Banco Central del Ecuador, Quito, Ecuador, reading as follows:

"The Board has authorized you to extend your stay in Ecuador to a period of ten weeks, and your letter of authorization dated March 7, 1947 is amended accordingly. It is recommended that you continue with the original plan of making brief stops, if convenient, for consultation with central banks in Central America on your way home."

Approved unanimously.

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Memorandum dated June 13, 1947, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that Miss Anne Malia be permanently assigned as Secretary to Mr. Morrill and that her basic salary be increased from \$3,021 to \$3,146.40 per annum, effective June 15, 1947.

Approved unanimously.

Memorandum dated June 12, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending that increases in the basic annual salaries of the following employees in that Division be approved, effective June 15, 1947:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Joseph E. Kelleher	Assistant to Director	\$5,403.60	\$5,905.20
Lee W. Langham	Sergeant	2,544.48	2,619.72
Mary T. Clarke	Clerk-Stenographer	2,394.00	2,469.24

Approved unanimously.

Memorandum dated June 10, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Cecile C. Wiesner as a page in that Division, on a temporary indefinite basis, with basic salary at the rate of \$1,756 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Mrs. Wiesner would become a member of the Federal Reserve retirement

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system.

Approved unanimously.

Memorandum dated June 12, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Joyce N. Amrin as a cafeteria helper in that Division, on a temporary basis for a period of two months, with basic salary at the rate of \$1,690 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that since her appointment was of a temporary nature, it was not contemplated that she would become a member of the Federal Reserve retirement system.

Approved unanimously.

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

"The Board of Governors approves the change in the personnel classification plan of the Buffalo Branch, consisting of an increase in the maximum annual salary for the position of Charwoman, as submitted with your letter of June 10, 1947."

Approved unanimously.

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

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank

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"of St. Louis and its Branches for the period June 1, 1947, through May 31, 1948, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letters of June 10, 1947, and telegram of June 12, 1947:

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
Chester C. Davis	President	\$25,000
F. Guy Hitt	First Vice President	18,000
Olin M. Attebery	Vice President	16,000
Wm. E. Peterson	Vice President	11,000
W. H. Stead	Vice President	12,000
L. H. Carstarphen	Secretary and General Counsel	9,600
S. F. Gilmore	Assistant Vice President	9,000
F. N. Hall	Assistant Vice President	7,000
G. O. Hollocher	Assistant Vice President	6,500
Howard H. Weigel	Assistant Vice President	8,000
L. K. Arthur	Assistant Vice President	5,000
J. H. Gales	Assistant Vice President	8,000
J. C. Wotawa	General Auditor	8,000
<u>Little Rock Branch</u>		
C. M. Stewart	Vice President	10,000
Clifford Wood	Assistant Manager	5,600
Clay Childers	Assistant Manager	4,800
<u>Louisville Branch</u>		
C. A. Schacht	Vice President	10,000
Fred Burton	Assistant Manager	6,000
S. B. Jenks	Assistant Manager	4,240
L. S. Moore	Assistant Manager	4,800
<u>Memphis Branch</u>		
W. B. Pollard	Vice President	10,800
S. K. Belcher	Assistant Manager	6,000
C. E. Martin	Assistant Manager	5,750
H. C. Anderson	Assistant Manager	4,400"

Approved unanimously.

Letter to the Bank of America N.T. & S.A., San Francisco, California, reading as follows:

"The Board of Governors of the Federal Reserve System authorizes your bank, pursuant to the provisions of section 13 of the Federal Reserve Act, to

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"accept drafts or bills of exchange for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto. Section 13 of the Federal Reserve Act provides that no member bank shall accept such drafts or bills in an amount exceeding at any one time the aggregate of one-half of its paid up and unimpaired capital and surplus. In determining such aggregate, the amount shall include any such drafts and bills of exchange accepted by other banks for the account of your institution.

"The right is reserved to terminate this authorization upon 90 days' notice to your bank as provided in the Regulation."

Approved unanimously, with the understanding that copies would be sent to the Federal Reserve Bank of San Francisco and the Comptroller of the Currency.

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

"This is in response to your request for comment on a letter dated May 6, 1947, which was received by Senator Pepper from Mr. Thomas R. Purman, of Washington, Pennsylvania. Mr. Purman is concerned about short selling on the stock exchange.

"We have had correspondence with Mr. Purman on this subject on several occasions and do not believe that what he has in mind falls within our province. In connection with our regulation of margin trading, we prescribe margins for short selling by the public — the present figure being 75 per cent — but we could not prohibit it.

"The short position on May 15 was 1,378,000 shares, having increased about 300,000 shares in the period from April 15 to that date. The sale of these 300,000 shares certainly exerted some depressing influence on the market and it was the largest increase that has taken place in a

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"similar period for many years. It must, however, be considered in the light of the total number of shares sold between April 15, and May 15, which in terms of round-lots was about 20,000,000 shares.

"In addition to the margin requirements, short selling is at present restricted by a rule of the Securities and Exchange Commission which has the effect of prohibiting short sales at a price below that of the last previous sale or at that price unless the latter was higher than the next preceding different price."

Approved unanimously.

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

"This is in response to your request for comment on a letter dated May 23, 1947, which you have received from Mr. Russell G. Longmire of Chicago, Illinois, relative to the administration of margin requirements. Our letter of May 6, 1947 commented on a previous letter from Mr. Longmire to Senator Brooks.

"Mr. Longmire's disagreement with our position rests on the proposition that the answer to the question of whether or not excessive use is being made of stock market credit depends solely upon a percentage comparison of the dollar amount currently outstanding with the dollar amount which was outstanding at some time in the past. Our view is that the answer depends upon a large number of economic factors of which the amount outstanding is only one. We feel quite confident that it was not the intent of Congress to limit the authority in the manner which Mr. Longmire has suggested.

"It may be worth noting that it is not bank loans to brokers which are the true measure of outstanding amounts of stock market credit but extensions of credit by both brokers and banks to customers plus brokers' own use of credit funds in the market. In other words, it is necessary to go further than so-called brokers' loan totals to obtain the correct figure.

"Mr. Longmire also objects to the policy of the Federal Reserve System in supplying reserves to the commercial banks

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"so that they might buy Government securities during the war. We agree with Mr. Longmire that this procedure created a large inflationary potential and have ourselves pointed out this result on many occasions. It does not appear, however, that Mr. Longmire has considered how it happened or what the alternatives were. Given the amount to be spent on the war effort, the funds had to be raised somehow. A part was provided by taxes and a part by Government securities sold to the public. In the absence of higher taxes and larger sales of securities to the public, the imperative need for funds to carry on the war was met by the commercial banks, and they could not have filled the gap unless the Federal Reserve System had increased reserves.

"The subject of possible changes in the regulation of margins receives continuing study by the Board. We have been glad to have this opportunity to comment on Mr. Longmire's letter which is returned to you herewith."

Approved unanimously.

Letter to the Honorable Charles W. Tobey, United States Sen-

ate, reading as follows:

"This is in response to your request for comment on a letter dated May 12, 1947, which you have received from Mr. R. R. Wilson of Forth Worth, Texas, relative to the Board's administration of margin requirements under the Securities Exchange Act of 1934.

"The Board feels that economic conditions do not yet justify a further reduction of margin requirements. Inflationary pressures are still present and the country urgently needs a readjustment of the price structure.

"Mr. Wilson may be under the impression that the purpose of the law was to protect the lender or investor. This is not the case, although regulation does have the effect of lessening the chance that credits will have to be liquidated at a loss. Margin requirements are administered in order to moderate undesirable effects of stock market credit on the national economy.

"It is certainly true that, under the Act, this type of credit is singled out for differential treatment and justly so, in our opinion, when its position in the economy and its history are considered. At a time like the

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"present when the overall need is for restraint on credit, it seems to us in keeping with national policy to be more restrictive in this sector than in others where the use of credit is more constructive under current conditions.

"The Securities Exchange Act does not give the Board power to regulate loans by banks to finance the purchase of unlisted securities. The reason is that the market for unlisted securities is largely governed by what happens in the listed market and the credit for purchase of unlisted securities has never been consequential.

"Mr. Wilson makes some point of the rule which tends to prevent some margin traders from switching from one stock to another without putting up more margin. You will understand that this rule applies only where the account does not meet the margin requirements which the Board has prescribed. What the rule does, in case a trader has closed out a position previously held, is to prevent him from going back into the market and purchasing another security unless his account, or at least the new commitment, is fully margined.

"The subject of possible changes in the regulation of margins receives continuing study by the Board. We have been glad to have this opportunity to comment on Mr. Wilson's letter which is returned to you herewith."

Approved unanimously.

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

"This is in response to your request for comment on a letter dated May 13, 1947, which you have received from Mr. W. T. Scott of Tulsa, Oklahoma, relative to the administration of margin requirements.

"The Board feels that economic conditions do not yet justify a further reduction of margin requirements. Inflationary pressures are still present and the country urgently needs a readjustment of the price structure.

"Margin requirements are administered in order to moderate undesirable effects of stock market credit on the national economy. It is certainly true that, under

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"the Securities Exchange Act of 1934, this type of credit is singled out for differential treatment and justly so, in our opinion, when its position in the economy and its history are considered.

"The subject of possible changes in the regulation of margins receives continuing study by the Board. We have been glad to have this opportunity to comment on Mr. Scott's letter, which is returned to you herewith."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Presidents of all the Federal Reserve Banks reading as follows:

"This letter is being written to bring you and other interested persons in your district up to date on the present status of S. 408 and H. R. 3268 which relate to the repeal of the present section 13b of the Federal Reserve Act and the addition of a new paragraph to the present section 13 of the Act, providing for the guarantee of business loans by Federal Reserve Banks. You will recall that I addressed a letter to you under date of March 21, 1947, calling attention to the legislative situation at that time with respect to this matter.

"S. 408 has been reported out favorably by the Senate Committee on Banking and Currency and is now on the Senate calendar. When a bill comes up on the Senate calendar, unanimous consent is necessary for its consideration, and when S. 408 was brought up recently, Senator Wherry, the Republican whip and a member of the Steering Committee, objected. While it is possible for a bill to be brought up on motion, such a course is not likely in this case without the consent of the Senate leaders. The only other method by which the bill may be brought up is by having it made the unfinished business of the Senate through arrangement by the Chairman of the Banking and Currency Committee with the Republic Steering Committee. Accordingly, it may be necessary to get the assistance of the members of the Steering Committee in order to obtain action on the bill by the Senate.

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"In the House the Banking and Currency Committee has completed hearings on H. R. 3268 but has not yet made a report on the bill. At present we have no indication as to whether or not the Committee report, when made, will be favorable.

"In view of your special interest in this legislation and of the fact that many of the bankers, industrialists, and particularly small business enterprises in your district are also very much interested in the proposed legislation, we want you to be fully advised of the present status of the legislation so as to be in a position to acquaint interested persons in your district with respect thereto. As stated in my letter of March 21, it is important that it be understood that unless sufficient support develops for the authority to make guarantees, Congress may decide to pass the first section of the Bill and not the second, thus leaving the Reserve banks without any authority in this field.

"As you know, I have testified before both the House and the Senate Banking and Currency Committees on these bills. You have been furnished with copies of my testimony before the Senate Committee on S. 408 and of press releases of statements made by me on June 3 and June 10 before the Banking and Currency Committee of the House on H. R. 3268."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Honorable Charles W. Tobey, Chairman of the Committee on Banking and Currency, United States Senate, reading as follows:

"This is in response to Mr. Hill's letter requesting an opinion as to the merits of the bills S. 1176 and S. 1178 which have been referred to the Senate Committee on Banking and Currency. These bills are substantially the same as H. R. 2800 and H. R. 2799, recently passed by the House of Representatives. The bills S. 804 and S. 1149 are similar in certain respects to S. 1178.

"For the reasons discussed below, the Board believes that none of these bills should become law in their present

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"form. One of these bills, S. 1176, would substantially extend the lending power of Federal savings and loan associations by permitting them to make unsecured loans for a wide variety of purposes. The second bill, S. 1178, would have the effect of making a gift of nearly 36 million dollars from the United States Treasury to the Federal Savings and Loan Insurance Corporation, and would reduce the premium rate for insurance by that Corporation from one-eighth to one-twelfth of one per cent.

"S. 1176 would amend section 5 of the Home Owners' Loan Act so as to permit Federal savings and loan associations to invest up to 15 per cent of their assets in loans insured under Title I of the National Housing Act, in loans guaranteed or insured as provided in the Servicemen's Readjustment Act of 1944, or in other loans for property alteration, repair, or improvement, so long as no such loan exceeded \$1500. The purpose of this amendment is to remove, as far as loans of the types named are concerned, the present requirement that all loans made by Federal associations must be secured by first liens on real estate or by share accounts.

"The Board has previously said that it has no objection to permitting Federal associations to make loans for property alteration, repair, or improvement insured under Title I of the National Housing Act and secured by notes alone. We are opposed, however, to permitting these institutions to make unsecured loans which are not insured or to make loans for purposes completely unrelated to real estate, such as would be eligible under the Servicemen's Readjustment Act. As we have pointed out on other occasions, such extensions of lending powers take these associations along the road to the general banking business, but without subjecting them to the restrictions which have been found to be essential to a sound banking system.

"Section 3 of S. 1178 would authorize and direct the Insurance Corporation to retire its capital stock, using for this purpose all its assets in excess of 150 million dollars. However, the total amount paid as dividends on the stock would be deducted from the amount to be paid to the Home Owners' Loan Corporation for the retirement of the stock. Moreover, the amount of the capital stock would continue to be available to the Insurance Corporation by virtue of a requirement that, on the initiative of the Insurance

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"Corporation, the Secretary of the Treasury would purchase obligations of the Insurance Corporation equal to the amount of capital stock thus retired.

"It may be well at this point to recall that the Federal Savings and Loan Insurance Corporation was created by Title IV of the National Housing Act, enacted June 27, 1934, with a capital of 100 million dollars, and that the Act provided that the capital should be supplied through an exchange of 100 million dollars of the bonds of HOLC for the stock of the Insurance Corporation, that the stock should yield dividends to HOLC at a rate equal to the interest rate on the bonds and that the dividends should be cumulative.

"We are in agreement with the general purpose of Section 3 of S. 1178, which is to retire the Government capital of the Federal Savings and Loan Insurance Corporation, but we do not believe that it is in the public interest to forgive the dividends due from the Insurance Corporation to the HOLC. If the effect of forgiving these dividends were merely to give the Insurance Corporation free use of its capital, we should not object, since this course has been followed with many Government corporations.

"The effect of forgiving these dividends, however, would be to make a gift of close to 36 million dollars from the United States Treasury to the Federal Savings and Loan Insurance Corporation, over and above the free use of its capital. Each year since 1934 the HOLC has paid in cash to the Insurance Corporation 3 million dollars as interest on its bonds. Since June 30, 1935, however, the Insurance Corporation, instead of repaying the 3 million dollars as dividends, has credited this amount to an account which appears in the balance sheet as 'Reserve for Contingencies.' At the end of 1946 this account showed a balance of 34.5 million dollars, and on June 30, 1947, it will show a balance of 36 million. Section 3 of S. 1178 would, in effect, remove the statutory liability of the Insurance Corporation for dividends and thus enrich the Insurance Corporation by 36 million dollars.

"Section 4 of S. 1178 would reduce the insurance premium of the Insurance Corporation from one-eighth of one per cent to one-twelfth of one per cent of the total amount of all accounts of the insured members of the institution plus any creditor obligations of the institution, and would

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"reduce the rate of assessment to meet losses and operating expenses likewise from one-eighth to one-twelfth of one per cent. In this connection, it should be remembered that, under Title IV of the National Housing Act as originally enacted in 1934, each institution was to pay an annual insurance premium calculated as one-fourth of one per cent. This premium was to be paid each year in which the reserve fund of the Insurance Corporation was less than 5 per cent of the insured accounts and creditor obligations of all insured institutions. The Corporation was also authorized to assess insured institutions each year for losses and expenses of the Corporation, in an amount not to exceed the insurance premium. By the Act of May 28, 1935, the premium rate and assessment rate were reduced from one-fourth of one per cent to one-eighth of one per cent, but the other provisions were left unchanged.

"In any discussion of reduction of the insurance premium, the treatment of the above-mentioned 'Reserve for Contingencies' of 36 million dollars is important, since this reserve -- paid by HOLC as interest on its bonds -- amounts to almost half of the total reserve of the Insurance Corporation. Thus, when advocates of a reduction of the insurance premium say that the reserves of the Corporation amount to almost 1.4 per cent of the insured liability, they are counting these funds, which should be paid to HOLC, as being available to meet insurance claims. If this reserve is disregarded, as it seems to us it properly must be in this connection, the reserves of the Corporation amount to about six-tenths of one per cent of the insured liability.

"In view of the intent of Congress, expressed in the statute at a time when the premium rate was set at one-fourth of one per cent, that the Corporation's reserve should be built up to 5 per cent of the insured liability, it seems clear that no sound grounds exist for reducing the insurance premium at this time.

"The Board appreciates the fact that, should insurance claims at any time exceed the reserve built up by the Corporation out of operating revenues, the United States Treasury will have to assume the liability as a matter of public policy, and that at such a time it matters little whether the Corporation borrows from the Treasury, uses money owed to the Treasury, or impairs

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"the capital owned by the Treasury. The Board feels very strongly, however, that while it can, the Corporation should be allowed to build up reserves, and that these reserves should be built up out of revenue and not from public gifts."

Approved unanimously, with the understanding that a copy would be sent to Mr. A. L. M. Wiggins, Under Secretary of the Treasury.

Letter prepared for Chairman Eccles' signature to the Honorable Charles W. Tobey, Chairman of the Committee on Banking and Currency, United States Senate, reading as follows:

"In connection with S. 1070, a bill to provide for the cancellation of the capital stock of the Federal Deposit Insurance Corporation, which your Committee is now considering, a Committee Print of this bill dated May 22, 1947, has come to our attention.

"In this Committee Print, at the end of section 1, is a sentence reading as follows:

'The amount paid the Secretary for the retirement of the stock subscribed by each Federal Reserve Bank shall be deemed a payment out of the surplus of such Federal Reserve Bank.'

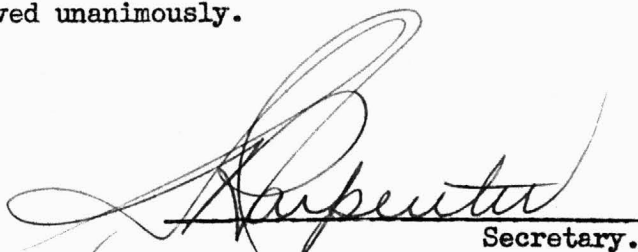
The inclusion of such a provision in the bill would cause confusion and might give rise to some uncertainty as to its interpretation. The facts are that, pursuant to the Banking Act of 1933, each Federal Reserve Bank was required to subscribe to stock of the Federal Deposit Insurance Corporation in an amount equal to one-half of its surplus on January 1, 1933. This subscription was paid in full by each Federal Reserve Bank in 1934. The payment out of the surplus of each Federal Reserve Bank for this stock took place, therefore, at that time. The stock has since been completely charged off on the books of the Federal Reserve Banks. It is obviously not intended that the surplus of the Federal Reserve Banks should be charged a second time with the amount of this stock.

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"The provision quoted above is, therefore, entirely unnecessary and since it would create confusion and uncertainty, we hope that it will be omitted from any final draft of the bill. The Board's Counsel will be glad to confer with any members of your staff regarding any aspects of this matter.

Approved unanimously.


Secretary.

Approved:


Chairman.