

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 11, 1947. The Board met in the Board Room at 12:10 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Smead, Director of the Division of Bank Operations
Mr. Bethea, Director of the Division of Administrative Services
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Horbett, Assistant Director of the Division of Bank Operations
Mr. Townsend, Assistant General Counsel

There were presented 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 Banks of St. Louis and San Francisco on July 9, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, and Dallas on July 10, 1947, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Reference was made to a memorandum from Mr. Nelson dated July 10, 1947, recommending that the group insurance program which now permits each employee of the Board to take \$1,000 of term life insurance be amended to permit employees having annual salaries of less than \$2,000 to take \$1,000 of insurance, employees having salaries between \$2,000 and \$2,999.99 to take \$2,000 of insurance, and employees having salaries of \$3,000 and over to take \$3,000 of insurance, provided at least two-thirds of the eligible employees take the increased insurance. The memorandum pointed out that the Committee of Employees had suggested adoption of this change along with suggestions that the maximum cost to the employee be set at 50 cents a month per \$1,000 of insurance compared with the present maximum of 60 cents and that a small amount of insurance be continued after retirement. The Division of Personnel Administration recommended against adoption of the two latter proposals.

During a discussion of the insurance policy, it was pointed out that the cost of the insurance was borne by the employees with the understanding that they would not be charged more than 60 cents a month per \$1,000 of insurance, that the loss ratio on the policy had been very favorable and charges to employees had been at the rate of 50 cents a thousand for some years, that employees had paid in about \$1,200 more than the actual premium cost of the policy, that participation of the staff was now slightly under the 75 per cent

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desired by the insurer, the Aetna Life Insurance Company, and that ability to keep the rate within the 60 cent level was dependent upon maintaining a relatively low average age of insured persons which necessitated wide-spread participation by the staff since otherwise the policy would tend to become loaded with older employees. It was also pointed out that 8 of the 12 Federal Reserve Banks carried similar policies but that only one (Atlanta) permitted retired employees to participate.

It was the view of the members present that there was no objection to increasing the insurance limits if it were clearly understood by the employees that they would be expected to bear the costs of the insurance and that the Board would not be called upon to bear more than a nominal expense in providing the increased benefits. It was also the consensus that adoption of the suggestion that 50 cents a month per \$1,000 as the maximum premium to be charged employees would endanger continuance of the policy since it might be necessary to discontinue the coverage entirely if costs rose above that level, and that it would not be desirable to extend the coverage to include retired employees because that would raise the average age and increase costs materially. In this connection it was noted that without medical examination any employee leaving the service of the Board had the option of converting part or all of his insurance to a permanent form under an individual policy.

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There was also a discussion of whether participation in the group insurance policy should be compulsory for new employees, but no conclusion was reached.

Mr. Nelson stated that the Committee of Employees had asked for an opportunity to meet with the Personnel Committee to discuss their suggestions in the event the Board did not approve all three recommendations.

Upon motion by Mr. Clayton, it was voted unanimously to refer the matter to the Personnel Committee with power to act, with the understanding that whatever plan was worked out would place no obligation on the Board to incur anything more than a nominal expense in connection with the plan.

Mr. Knapp, Assistant Director of the Division of Research and Statistics, entered the meeting at this point.

Chairman Eccles stated that members of the staff of the Research Division had been participating in studies for other Government agencies relating to the "Marshall Plan" for assistance to European countries, that these studies had not come before the Board for approval, and that, in response to his request, Mr. Thomas had prepared a memorandum under date of July 8, 1947, discussing the work now being done in connection with the studies. He went on to say that there was no criticism in any way of participation by the staff in such work, as it was believed that the Board should make

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its facilities available wherever it could be useful in helping other departments or agencies of Government or Congress on work that was necessary or desirable, but that the Board should know of such projects, partly for the purpose of passing upon participation in the light of expense and time that would be required, and partly because the members of the Board should be fully informed of any projects in which members of the staff might be engaged and in a position to approve or disapprove of such participation. He recommended that the Board establish a policy to provide that it be advised and its approval obtained before members of the staff undertook to participate in any projects for other agencies where special memoranda were to be prepared even though the work might be regarded as a part of the regular work of a division, or where a position was taken that might be interpreted as the position of the Board.

Mr. Thomas stated that the Research Division had been operating under the policy outlined at the meeting of the Board on April 18, 1945, that he had felt free to authorize individuals in his Division to participate in small jobs for other Government agencies which did not take much time, and that he agreed that anything which involved a large amount of time or study or which represented a special project should be submitted to the Board for its information and for determination as to whether the work should be undertaken.

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It was agreed unanimously that, except with the approval of the Board, no member of the staff should undertake to participate in any special project for another Government agency whenever the work to be done by the staff involved (1) the submission of a statement or memorandum which might be interpreted as expressing a view by the Board, or (2) the taking of a position which might be interpreted as being the position of the Board.

The Board also approved unanimously participation of members of the Division of Research and Statistics in work connected with the "Marshall Plan" as outlined in Mr. Thomas' memorandum of July 8, 1947.

Chairman Eccles then referred to the large volume of material of both a routine and non-routine character which came to the offices of members of the Board for reading. He suggested that it would be helpful to him, and perhaps to each other member of the Board, if the sending of this material directly to the members were discontinued with the understanding that the Secretary's Office would prepare and send to the members' offices periodically a list of memoranda, reports, statements, etc., received by that Office, so that if a member of the Board were interested in seeing any of the listed material he could ask that it be sent to him.

After a discussion of the material that would be included in such a list, it was voted unanimously that the procedure suggested by Chairman Eccles be put into effect promptly.

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The meeting recessed at this point and reconvened at 2:40 P.m. with the same attendance as at the morning session, except that Messrs. Bethea and Knapp were not present and Mr. Millard was in attendance.

Before this meeting there were distributed to those present copies of a memorandum prepared by Messrs. Szymczak and Clayton under date of July 11, 1947, in accordance with the decision reached at the meeting on July 2, 1947, relating to possible bases for the designation of reserve cities and amendments to Regulation D, Member Bank Reserves. The memorandum presented for consideration by the Board the following alternative bases for the designation of reserve cities:

Alternative "A"

- (1) Federal Reserve Bank and branch cities and Washington, D. C.
- (2) Every other city in which member banks (exclusive of their offices in other cities) have held on every call date in the preceding two years interbank deposits equal to $1/2$ of 1 per cent of total interbank deposits held by all member banks in the United States. (No change would be made in the list of these reserve cities except after review of the situation at approximately two-year intervals.)
- (3) Every other presently designated reserve city, in which member banks (exclusive of their offices in other cities) have held on every call date in the preceding two years interbank deposits of more than $1/10$ of 1 per cent of total interbank deposits held by all member banks in the United States, to continue as such until January 1, 1950, whereupon the reserve city designation shall be terminated unless member banks therein have meantime petitioned the

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Board to continue the reserve city designation, in which case the Board will grant them a hearing for the purpose of determining whether or not the designation should be continued or terminated. In making such determination the Board will be guided largely by the relative proportions of interbank deposits held by the banks favoring and those not favoring the reserve city designation.

Alternative "B"

- (1) Federal Reserve Bank and branch cities and Washington, D. C.
- (2) Every other city in which member banks (exclusive of their offices in other cities) have held on every call date in the preceding two years interbank deposits equal to $1/4$ of 1 per cent of total interbank deposits held by all member banks in the United States. (No change would be made in the list of these reserve cities except after review of the situation at approximately two-year intervals.)
- (3) Every other presently designated reserve city, even though not qualified under item (2), to continue as such until July 1, 1948, whereupon the reserve city designations shall be terminated unless all member banks in the city have meantime requested the Board to continue the designation. (No change would be made in the list of these reserve cities except after review of the situation at approximately two-year intervals.)

The memorandum also outlined possible alternative amendments to Regulation D as follows:

Alternative No. 1

Provide that the required reserves of any bank with offices in both reserve and non-reserve cities shall be the aggregate of required reserves determined separately for (a) offices located in reserve cities, which shall be the same as the requirements applicable to reserve city banks, and (b) offices located in non-reserve cities, which shall be the same as requirements applicable to country banks.

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Alternative No. 2

Provide that (a) in the case of a bank with its head office in a reserve city and a branch in a non-reserve city, all of its deposits shall be subject to reserve city requirements, and (b) in the case of a bank with its head office in a non-reserve city and a branch in a reserve city, deposits in the reserve city branch shall be subject to reserve city requirements and the deposits of the head office and non-reserve city branches shall be subject to the requirements applicable to country banks.

During a discussion of the alternatives referred to above, Chairman Eccles suggested that instead of sending to the Presidents of the Federal Reserve Banks and members of the Federal Advisory Council for comment the two alternative bases referred to above for the designation of reserve cities, the Board submit only one proposal which would be substantially as follows:

- (1) Federal Reserve Bank and branch cities (except New York and Chicago which would continue as central reserve cities) and Washington, D. C.
- (2) Every other city in which member banks (exclusive of their offices in other cities) have held on every call date in the preceding two years interbank deposits equal to $1/2$ of 1 per cent of total interbank deposits held by all member banks in the United States.
- (3) Every other presently designated reserve city, in which member banks (exclusive of their offices in other cities) have held on every call date in the preceding two years interbank deposits of $1/4$ of 1 per cent or more of total interbank deposits held by all member banks in the United States, such designation to continue until such time as the member banks (exclusive of their offices in other cities) having a preponderance of the interbank deposits in the city request that the designation as a reserve city be terminated and that request is approved by the Board.

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This suggestion was agreed to and it was understood that the staff would prepare a draft of letter to the Presidents of the Federal Reserve Banks and the members of the Federal Advisory Council along lines discussed, it being understood that the draft would include a full statement of the reasons for the percentages stated in the proposal.

It was also agreed that while at the proper time it would be desirable to amend Regulation D as outlined in the first alternative set forth in the memorandum from Messrs. Szymczak and Clayton, that action should not be taken while the holding company bill was being considered by the Congress and the Lakewood Village case was pending in the courts.

Reference was then made to a memorandum prepared by Mr. Horbett under date of June 19, 1947, and reading as follows:

"At the meeting of the Presidents of the Federal Reserve Banks with the Board of Governors on February 28, 1947, it was agreed that the Presidents of the Federal Reserve Banks of Richmond, Atlanta, and St. Louis would furnish the Board with such information as was available of cases where insured nonmember banks were absorbing exchange charges in apparent violation of the regulations of the Federal Deposit Insurance Corporation. It was understood that, upon receipt of this information, the matter would be taken up with Mr. Wiggins, Under Secretary of the Treasury, and the Federal Deposit Insurance Corporation.

"Pursuant to this understanding, the three Federal Reserve Banks have reported the following insured nonmember banks as using absorption of exchange charges as an inducement to obtain and maintain accounts of other banks, but in only the first four cases have the Federal Reserve Banks furnished definite evidence of the practice.

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"Branch Banking and Trust Company,
Wilson, North Carolina
First Citizens Bank and Trust Company,
Smithfield, North Carolina
Industrial Bank of St. Louis,
St. Louis, Missouri
Guaranty Bank and Trust Company,
Alexandria, Louisiana
Commercial Bank and Trust Company,
Jackson, Mississippi
Merchants and Farmers Bank,
Meridian, Mississippi

"A digest of the information reported by the Federal Reserve Banks concerning these banks is attached. President McLarin, when in Washington recently, informed Mr. Carpenter that the material on exchange charge absorptions by the last two banks was given to him in confidence and that he did not, therefore, forward it to the Board. However, we have shown in the digest the interbank and total deposit figures of these two banks for June 30 and December 31, 1945, which we obtained from statements published in newspapers.

"The matter is being submitted to the Board at this time for consideration of the steps to be taken in presenting it to the Treasury and the Federal Deposit Insurance Corporation."

In the discussion which ensued, Chairman Eccles suggested that a memorandum be prepared which would outline the situation confronted by the Board with respect to the absorption of exchange charges by member banks and nonmember banks and that when the memorandum was completed Mr. Clayton confer with Under Secretary of the Treasury Wiggins, who as a former banker and President of the American Bankers Association was familiar with the problem.

Chairman Eccles' suggestion was approved unanimously.

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Chairman Eccles stated that the Senate Banking and Currency Committee reported out this morning a joint resolution, S. J. Res. 148, which would authorize the continuance of Regulation W, Consumer Credit, until the end of 1947, provided that maximum maturities under the regulation were set at not less than 24 months and that down payments were set at not more than 20 per cent of the cash selling price. He also noted that the House Banking and Currency Committee previously had reported H. J. Res. 222 which would terminate the Board's authority to regulate consumer credit except during a period of war or national emergency proclaimed by the President after the date of enactment of the resolution.

There was a discussion of what if any action the Board should take at this time and it was agreed that the Chairman should bring the matter to the attention of the President so that he could decide whether it would be desirable for him to revoke the Executive Order under which Regulation W was issued, without waiting for further action by the Congress.

At this point Messrs. Smead, Thomas, Vest, Nelson, Horbett, Townsend, and Millard left the meeting, and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 10, 1947, were approved unanimously.

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Memorandum dated July 9, 1947, from Mr. Szymczak recommending that increases in the basic annual salaries of the following employees in the Board Members' Section be approved, effective July 13, 1947:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Elnyr D. Newcome	Secretary to Mr. Szymczak	\$4,149.60	\$4,400.00
Theodosia M. Kinney	Stenographer	2,394.00	2,544.48

Approved unanimously.

Memorandum dated July 9, 1947, from Mr. Carpenter recommending that increases in the basic annual salaries of the following employees in the Office of the Secretary be approved, effective July 13, 1947:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John C. Brennan	General Assistant	\$3,898.80	\$4,149.60
E. Katharine Meiser	Secretary to Mr. Hammond	3,146.40	3,271.80

Approved unanimously.

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

"Your letter of June 20, 1947, refers to section 6(h) of Regulation T, which deals with borrowing and lending of securities. You ask, in effect, whether the section applies to a borrowing of securities if the lender is a private individual, as contrasted with a member of a national securities exchange or a broker or dealer.

"Section 6(h) does not require that the lender of the securities in such a case be a member of a national securities exchange or a broker or dealer. Therefore, a borrowing

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"of securities may be able to qualify under the provision even though the lender is a private individual, and this is true whether the security is registered on a national securities exchange or is unregistered. In borrowing securities from a private individual under section 6(h), however, it becomes especially important to bear in mind two limitations that are contained in the section.

"The first limitation is that the section applies only if the broker borrows the securities for the purpose specified in the provision, that is, 'for the purpose of making delivery of such securities in the case of short sales, failure to receive securities he is required to deliver, or other similar cases'. The present language of the provision does not require that the delivery for which the securities are borrowed must be on a transaction which the borrower has himself made, either as agent or as principal; he may borrow under the provision in order to relend to someone else for the latter person to make such a delivery. However, the borrowing must be related to an actual delivery of the type specified -- a delivery in connection with a specific transaction that has already occurred or is in immediate prospect. The provision does not authorize a broker to borrow securities (or make the related deposit) merely in order that he or some other broker may have the securities 'on hand' or may anticipate some need that may or may not arise in the future.

"The ruling at 1940 Federal Reserve Bulletin, page 647, is an example of a borrowing which, on the facts as given, did not meet the requirement. There, the broker wished to borrow stocks with the understanding that he 'would offer to lend this stock in the "loan crowd" on a national securities exchange.' There was no assurance that the stocks would be used for the purpose specified in section 6(h); they might be, or they might merely be held idle while the person lending the stocks had the use of the funds deposited against them. The ruling held in effect that since the borrowing could not qualify under section 6(h) it must comply with other applicable provisions of the Regulation.

"The second requirement is that the deposit of cash against the borrowed securities must be 'bona fide'. This requirement naturally cannot be spelled out in detail, but it requires at least that the purpose of the broker in making the deposit should be to obtain the securities for the specified purpose, and that he should not use the arrangement as a means of accommodating a customer who is seeking to obtain more funds than he could get in a general account.

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"The Board recognizes that even with these requirements there is still some possibility that the provision may be misapplied. The Board is reluctant to impose additional burdens on legitimate transactions by tightening the provision. If there should be evidence of abuses developing under the provision, however, it would become necessary to consider making it more restricted."

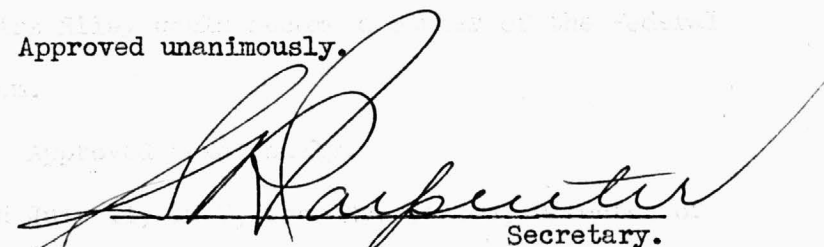
Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

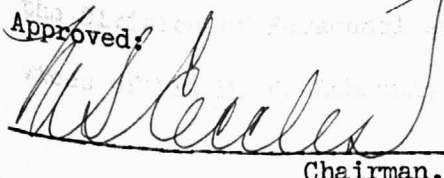
"Enclosed for your information is a copy of a letter dated July 2, 1947, to Chairman Eccles from Mr. Irvin L. Rice, Acting Administrator, Sugar Rationing Administration, United States Department of Agriculture, regarding the termination of the ration banking program effective July 1, 1947, together with a copy of our reply.

"You will note that Mr. Rice states that after June 30 examination and reporting on the ration banking activities of the banks will serve no useful purpose. Accordingly, letter S-610 of January 16, 1943 (F.R.L.S. #3620), which related to the examination of ration banking activities of State member banks, is hereby cancelled. However, as requested by the Sugar Rationing Administration, it will be appreciated if you will instruct your examiners to ascertain, in connection with the next examination of each State member bank which participated in the ration banking program, whether final reports to the Sugar Rationing Administration have been made and all ration checks forwarded as directed and, if not, to suggest that such reports and shipments be made.

Approved unanimously.


Secretary.

Approved:


Chairman.