

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 31, 1947. The Board met in the Board Room at 11:15 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Evans

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. Vest, General Counsel

There was presented a letter from Mr. Gilbert, President of the Federal Reserve Bank of Dallas, dated July 28, 1947, transmitting a copy of a resolution passed on July 28 by representatives of banking and clearing house associations in the Eleventh Federal Reserve District which referred to the decision of the Federal Reserve Banks to reimburse their member banks for postage and other transportation costs on all cash items routed direct to other Federal Reserve Banks and branches. The resolution read in part as follows:

"THEREFORE, BE IT RESOLVED:

"FIRST: That the authorization and adoption of such a practice appears to be in direct contravention to and in conflict with the present restrictions of Regulation Q promulgated by the Federal Reserve Board and prohibiting the payment and absorption by member banks of such items of expense.

"SECOND: That no sound reason is discernible to justify any refund or reimbursement of such expenses incident to routing of cash items.

"THIRD: That such a practice will disrupt existing normal and natural flow of cash items through and between

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"member banks and their correspondents within the Eleventh Federal Reserve District.

"FOURTH: That such a practice, if authorized, will unfairly discriminate against member banks and create an unjustified advantage in favor of Federal Reserve Bank.

"FIFTH: That the effective date of such a practice should in justice to all banking and clearing house institutions in the Eleventh Federal Reserve District be postponed in order to afford opportunity for further study of all possible advantages and disadvantages likely to result from such a practice.

"SIXTH: That the Federal Reserve Board and directors and officers of the Federal Reserve Bank of Dallas should be and are hereby requested to postpone publishing any authorization of such practice.

"SEVENTH: That this resolution be signed by each representative present as the expression of the views of the association or institution he represents."

Mr. Gilbert's letter stated that in view of the representations made in the resolution, he had called a meeting of the executive committee of the Dallas Bank to be held at 2:00 p.m. on Wednesday, July 30, that he had agreed not to mail the circular letter that had been prepared, announcing that the Bank would reimburse member banks under this program, until after the matter had been presented to the executive committee of the Dallas Bank and to the Board of Governors, that he had advised the representatives of the banks and the clearing house associations that in his opinion the new program would not result in the accumulation by country banks of additional excess reserves with the Federal Reserve Bank of Dallas, and that he thought the larger correspondent banks would be the chief beneficiaries of the program. Mr. Gilbert's letter also stated that it was his feeling

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that the offer to reimburse member banks for postage and other transportation costs on all cash items routed direct to other Federal Reserve Banks and branches would cause very few of the smaller banks to send items direct to other Federal Reserve Banks and branches because their volume of such items was not sufficient to justify such direct sendings and because the smaller banks would rather continue to send all of their items, including out-of-district items, to their city correspondents in one letter to avoid making the sorts which would be required if they should decide to send items direct to other Federal Reserve Banks and branches. His letter went on to say that he felt the circular which the Dallas Bank had prepared announcing the new policy effective August 1 should be mailed to all of the member banks in the Eleventh Federal Reserve District by the end of this month.

In a discussion of the matter it was noted that at the Presidents' Conference in June it had been agreed that the new program would be adopted, that the Board's letter of June 26, 1947, to all Federal Reserve Banks had set August 1, 1947, as the date upon which the program would become effective at all Federal Reserve Banks and branches, that eight of the Federal Reserve Banks had sent circulars to all member banks in their districts announcing the program, that the Federal Reserve Banks of Chicago, Minneapolis, and Kansas City had notified only their member banks presently taking advantage of the direct

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sending privilege, and that the Dallas Bank had not sent out any notice concerning the program.

The members of the Board who were present were in agreement with the position stated in Mr. Gilbert's letter and agreed unanimously that the following wire should be sent to Mr. Gilbert with the understanding that the Secretary would telephone the Presidents of the Federal Reserve Banks of Chicago, Minneapolis, Kansas City, and Dallas and say to them that eight of the Banks had sent formal announcements of the program to all member banks in their districts, that some bankers were asking that the effective date be postponed, and that in order to avoid the confusion that was arising the Board felt the matter should be handled by all Federal Reserve Banks in a uniform manner and that, therefore, the Board requested that in order to comply with the understanding at the meeting of the Board and the Presidents on June 6, they should take the necessary action today to notify all member banks in their district that the program would become effective August 1, 1947. It was felt that while this matter was not within the scope of the Administrative Procedure Act, it would have been better if the Federal Reserve Banks had sent notices to member banks in the respective districts promptly after receiving the Board's letter of June 26, 1947, stating that the program would be effective August 1, 1947:

"Your letter July 28 re reimbursement for transportation costs on cash items routed direct to other Federal Reserve Banks and branches. As you know, practically all Reserve Banks have already sent notifications of the new procedure to become effective August 1, 1947, and Board is not in position to postpone effective date. Board is

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"in agreement with your views as to reasons for this action and feels that you should make such further explanation as you deem appropriate to anyone who may be interested. Board, of course, will be glad to discuss matter with bankers from your district if they desire to come to Washington for that purpose at mutually convenient time."

At this point Messrs. Smead and Vest withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Telegram to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the application of the "Bank of Leighton", Leighton, Alabama, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta:

- "4. At the time of admission to membership, such bank shall be entitled to the benefits of deposit insurance under the provisions of section 12B of the Federal Reserve Act."

The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram contained

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the following additional statement which would be included in the Board's letter to the applicant bank:

"Since the application for membership was made on behalf of the Bank of Leighton prior to its organization, it is requested that, in connection with the acceptance of the conditions of membership prescribed by the Board of Governors, the board of directors of the bank ratify the action which has been taken on its behalf in making application for membership in the Federal Reserve System."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to Mr. F. J. Bailey, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This refers to your letter of July 29, 1947, enclosing a facsimile of the enrolled enactment of S. 1720, a bill 'To amend the National Housing Act, as amended', and inquiring whether there is any objection to the approval of the bill by the President.

"The purposes of the bill are (1) to authorize the Federal Housing Administration to insure under title VI of the National Housing Act mortgages on surplus war housing disposed of by the Government, and (2) to increase the authorized amount of mortgage insurance pursuant to the existing provisions of title VI.

"The granting of authority to insure mortgages in connection with the sale of surplus war housing is designed to assist veterans in financing the purchase of such housing. Title VI insurance is not now available for this purpose because existing law restricts it to new construction. In addition to aiding veterans, private financing through insured mortgages would reduce the need for the Government to finance purchases by taking back purchase money mortgages.

"The period during which mortgages may be insured pursuant to the existing provisions of title VI recently was extended from June 30, 1947, to March 31, 1948, and the increase in the authorized amount of insurance is

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"designed to assure that this assistance to home builders may be continued until the latter date.

"In the circumstances, the Board has no objection to the approval of the bill by the President."

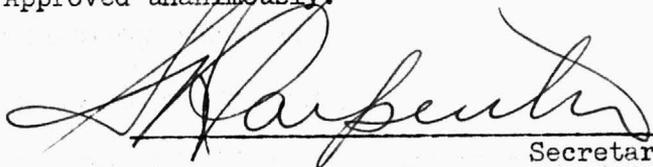
Approved unanimously.

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

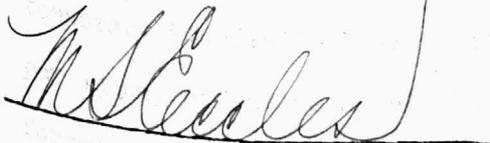
"Supplementing the Board's letter of January 6, 1947 (S-951), there is attached a copy of form F. R. 635 as revised to eliminate the item of war loan accounts that is no longer reported separately by member banks. Other revisions are relatively minor and are described in the attached memorandum. A supply of the forms will be forwarded under separate cover.

"There is also attached a copy of form F. R. 644, with proposed revisions as it is being submitted to the Bureau of the Budget. The revisions in this form are also relatively minor and the remaining supply of the present forms should be used."

Approved unanimously.


Secretary.

Approved:


Chairman.