

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 15, 1947. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
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. Brown, Assistant Director of the Division of Research and Statistics

Mr. Vest stated that he had received a telephone call yesterday from Mr. Thomas J. Lynch, General Counsel of the Treasury Department, and later in the day was handed a draft of a bill prepared by the Treasury Department which would establish a National Advisory Council on Domestic Credit Extension consisting of the Secretary of the Treasury as Chairman, Chairman of the Senate Committee on Banking and Currency, Chairman of the House Committee on Banking and Currency, Secretary of Agriculture, Chairman of the Board of Governors of the Federal Reserve System, Chairman of the Board of Directors of the Reconstruction

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Finance Corporation, Housing and Home Finance Administrator, Administrator of Veterans' Affairs, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, and Federal Works Administrator. Under the bill the Council would be instructed to coordinate the policies and operations of all agencies of the Government to the extent they engage in the extension, or the supervision of extension, of domestic credit. Mr. Vest stated that Mr. Lynch had asked for an informal expression of opinion as to the Board's views with respect to the proposed legislation.

In discussing the proposed bill, the members of the Board concurred in the following statement:

The Board of Governors would not favor such a proposal at this time. It feels that legislation is not necessary since the President could set up a voluntary committee consisting of heads of the agencies having to do with the extension of credit which would be just as effective in accomplishing the desired objectives of coordination. The Board would favor the creation of such a voluntary committee.

If it is insisted that legislation is necessary, the Board feels strongly that the matter should be given full and complete consideration before a proposal is submitted to the Congress. In any event, the Board feels that it would be unfair to representatives of Congress to include them in the membership of the committee for the reason that they would not be authorized to speak for the Congress, and the responsibility for carrying out established policies rests with the executive and not the legislative branch of the government. Congress has recognized this situation in the creation of the National Advisory Council. Members of Congress are available for consultation whenever desired.

At the conclusion of the discussion, it was agreed unanimously that Mr. Vest should telephone Mr. Lynch,

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General Counsel of the Treasury, advising him of the Board's view along the lines of the above statement.

Mr. Evans stated that the Personnel Committee had made a careful review of the budget of the Board of Governors for the year 1948, as submitted by Mr. Bethea, as Budget officer, that it had raised a number of questions for further consideration, that as a result of information supplied to the Committee it had satisfied itself that the amounts requested for both personal and non-personal services were reasonable, and that the Committee recommended approval of the budget as submitted, with the understanding (1) that in connection with the amount of \$31,135 provided for purchases of furniture and equipment, the Director of the Division of Administrative Services would give special consideration to requests for purchases of furniture and equipment in an effort to keep them as low as possible consistent with efficient operations of the Board, and would make every effort to secure the maximum utilization of all furniture and equipment now owned by the Board before authorizing new purchases; and (2) that the personnel ceiling of 169 persons for the Division of Research and Statistics was approved as a total representing an "ideal" number for the staff of that Division, and that in making recommendations to fill those positions special care would be exercised to secure unusually well qualified persons.

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Mr. Evans then moved that, with the understanding stated above, the Board approve the budget for the year 1948 as follows:

## BUDGET

For the Year Ending December 31, 1948

## PERSONAL SERVICES

Salaries	\$2,073,649.05
Retirement Contributions	<u>145,941.78</u>
Total Personal Services	\$2,219,590.83

## NON-PERSONAL SERVICES

Traveling Expenses	169,350.00
Postage and Expressage	28,870.00
Telephone and Telegraph	58,675.00
Printing and Binding	132,300.00
Stationery and Supplies	26,850.00
Furniture and Equipment	31,135.00
Books and Subscriptions	11,375.00
Heat, Light, and Power	34,000.00
Repairs and Alterations (Building and Grounds)	6,700.00
Repairs and Maintenance (Furniture and Equipment)	5,125.00
Medical Service and Supplies	2,500.00
Insurance	2,525.00
Miscellaneous	<u>166,320.00</u>
Total Non-Personal Services	\$ <u>675,725.00</u>

GRAND TOTAL \$ 2,895,315.83

Mr. Evans' motion was put by the Chair and carried unanimously.

The following resolution levying an assessment on the 12 Federal Reserve Banks to cover the expenses of the Board

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for the first six months of 1948 as provided in the annual budget approved at this meeting was approved unanimously:

"RESOLUTION LEVYING ASSESSMENT"

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1948, it is necessary that a fund equal to two hundred and nine thousandths of one per cent (.00209) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and nine thousandths of one per cent (.00209) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business December 31, 1947.

(2) Such assessment shall be paid by each Federal Reserve Bank in two equal instalments, the first on or before January 15, 1948, and the second on March 1, 1948.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve

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"System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Mr. Vardaman stated that he had asked that Mr. Thomas' memorandum dated December 4, 1947, requesting approval for continuation of the annual retail credit survey to cover the year 1947 be discussed at this meeting, not because he was opposed to continuing the survey as recommended, but because he wanted to discuss it in the light of the understanding reached at the meeting on December 19, 1946, that the Division of Research and Statistics would prepare a forecast of the research work that the Division might be called on to perform over a period of the next five years and submit the forecast to the Board.

Mr. Thomas stated that the survey was being made in the Division, section by section, that Mr. Morse's leaving had delayed it somewhat, and that the task was now in the hands of Mr. Brown. He also said that the project had developed into a survey through the System Research Advisory Committee of the research and statistical work being done by the Board and the various Federal Reserve Banks, and that it included a careful survey of all of the statistical projects now being carried on to determine what

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should be continued and what should be eliminated.

There was a further discussion of special projects contemplated by the Research Division, and upon motion by Mr. Vardaman, it was voted unanimously to authorize the Division of Research and Statistics to continue the retail credit survey for the year 1947 along the lines outlined in Mr. Thomas' memorandum of December 4, 1947.

Messrs. Bethea, Thomas, and Brown left the meeting at this point.

Before this meeting there had been sent to the members of the Board copies of three memoranda dated December 12, 1947, from the Personnel Committee with respect to the appointment of Class C directors, designation of Chairmen and Federal Reserve Agents, and appointment of Deputy Chairmen at the Federal Reserve Banks for the terms beginning January 1, 1948, as well as the appointment of directors at branches of the Federal Reserve Banks. The first memorandum recommended the reappointment of all Class C directors whose terms expired at the end of this year except at the Federal Reserve Banks of New York, Cleveland, Chicago, and St. Louis. It also recommended that Mr. Allan Kline of Vinton, Iowa, a farmer and President of the Iowa Farm Bureau Federation and Vice President of the American Farm Bureau Federation, be appointed a Class C director at the Federal Reserve Bank of

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Chicago, and that Mr. S. Toof Brown of Memphis, Tennessee, President of S. C. Toof and Company, a printing and office equipment house, be appointed as a Class C director at the Federal Reserve Bank of St. Louis. The memorandum also stated that the question of the reappointment of Mr. A. Z. Baker as a Class C director of the Federal Reserve Bank of Cleveland would be submitted later.

The second memorandum, with respect to the designation of Chairmen and Federal Reserve Agents and appointment of Deputy Chairmen at the Federal Reserve Banks for the year 1948 recommended that all persons now filling those positions (the position of Chairman at the New York Bank being vacant) be redesignated or reappointed except at the Federal Reserve Bank of St. Louis where it was recommended that Mr. S. Toof Brown be designated as Deputy Chairman to succeed Mr. Douglas W. Brooks, who was not being reappointed as a Class C director.

In connection with the proposed reappointment of Mr. Creighton, Mr. Szymczak stated that he would vote for the reappointment, but that, as stated at the meeting on December 5, he was opposed to the change in the ruling of the Board that made the appointment possible.

Mr. Vardaman questioned the desirability of basing recommendations for the appointment of directors almost solely on



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reports received from the Presidents of the Reserve Banks and Mr. Evans stated that the policy of the Personnel Committee in this connection was to check all appointments through the Chairman as well as to get information from other available and reliable sources, that if the President should express an opinion with respect to a possible appointee it would be considered along with other information presented, but that the information was developed principally through the Chairman of the Federal Reserve Bank.

Chairman Eccles stated that while the Board had relied on him to make a recommendation of an appointee to fill the vacancy of Class C Director, Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York, he had been so occupied with other work that he had not been able to go to New York for the purpose of looking into the matter. He expressed the view that this appointment was a very important one, that the Board perhaps had avoided a wrong appointment in not being too quick to fill the vacancy, and that the names of two promising possibilities had been brought to his attention and that he would make a recommendation as soon as he could make the necessary investigation.

The recommendations of the Personnel Committee with respect to the appointment

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of Class C Directors, Chairmen, and Deputy Chairmen were discussed, and unanimous actions were taken by the Board as set forth below:

The following were reappointed as Class C directors of the respective Federal Reserve Banks shown each for a term of three years beginning January 1, 1948:

<u>Name</u>	<u>Federal Reserve Bank</u>
Albert M. Creighton	Boston
C. Canby Balderston	Philadelphia
Charles P. McCormick	Richmond
Frank H. Neely	Atlanta
Roger B. Shepard	Minneapolis
Robert L. Mehornay	Kansas City
G. A. Frierson	Dallas
William R. Wallace	San Francisco

It was understood (1) that Mr. Avery, Chairman at the Federal Reserve Bank of Chicago, would be asked to ascertain informally whether Mr. Allan Kline of Vinton, Iowa, President of the Iowa Farm Bureau Federation and Vice President of the American Farm Bureau Federation, would accept, if tendered by the Board, appointment as a Class C director of the Federal Reserve Bank of Chicago for the three year term beginning January 1, 1948, to succeed Mr. Leland, and (2) that Mr. Dearmont, Chairman of the Federal Reserve Bank of St. Louis would be asked to ascertain informally whether Mr. S. Toof Brown of Memphis, Tennessee, President of S. C. Toof and Company, would accept, if tendered by the Board, appointment as Class C director of the Federal Reserve Bank of St. Louis for the three year term beginning January 1, 1948, to succeed Mr. Douglas W. Brooks.

The following were redesignated as Chairmen and Federal Reserve Agents at

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the respective Federal Reserve Banks shown for the year 1948 and the compensation of each as Chairman and Federal Reserve Agent was fixed on the uniform basis for the same position at all Federal Reserve Banks; i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors:

<u>Name</u>	<u>Federal Reserve Bank</u>
Albert M. Creighton	Boston
Thomas B. McCabe	Philadelphia
George C. Brainard	Cleveland
W. G. Wysor	Richmond
Frank H. Neely	Atlanta
Clarence W. Avery	Chicago
Russell L. Dearmont	St. Louis
Roger B. Shepard	Minneapolis
Robert B. Caldwell	Kansas City
J. R. Parten	Dallas
Brayton Wilbur	San Francisco

The following were appointed as Deputy Chairmen of the respective Federal Reserve Banks shown for the year 1948:

<u>Name</u>	<u>Federal Reserve Bank</u>
Donald K. David	Boston
William I. Myers	New York
Warren F. Whittier	Philadelphia
Reynold E. Klages	Cleveland
Charles P. McCormick	Richmond
J. F. Porter	Atlanta
Paul G. Hoffman	Chicago
* S. Toof Brown	St. Louis
W. D. Cochran	Minneapolis
Robert L. Mehornay	Kansas City
R. B. Anderson	Dallas
Harry R. Wellman	San Francisco

(\* ) New appointment which would become effective only in the event Mr. Brown was appointed a Class C director.

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Mr. Evans then referred to a memorandum with respect to the appointment and reappointment of branch directors for the terms beginning January 1, 1948. Included in the memorandum were recommendations that Mr. Roger Peace of Greenville, South Carolina, President of the Greenville News-Piedmont Company, be appointed as a director of the Charlotte Branch of the Federal Reserve Bank of Richmond for the three year term beginning, January 1, 1948, and that Mr. Joe W. Seacrest of Lincoln, Nebraska, publisher of the Nebraska State Journal and head of a chain of radio stations be appointed as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City for the two year term beginning January 1, 1948. There was a discussion of the desirability of appointing as Class C directors or as directors of branches of Federal Reserve Banks persons who were engaged in the publishing business and who thus determine editorial policy of newspapers and were more or less forced to take a position on controversial local and national problems and might at times find it difficult to disassociate their activities in this connection from their activities as directors of Federal Reserve Banks. It was the view of the members of the Board that it would be desirable to find other appointees if possible, and that the Personnel Committee should make additional recommendations for appointments to the two branches mentioned.

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In accordance with the other recommendations contained in the memorandum from the Personnel Committee the following actions were taken:

The following were reappointed as directors of the respective branches of the Federal Reserve Banks shown each for a term of three years beginning January 1, 1948:

<u>Name</u>	<u>Federal Reserve Bank Branch</u>
Paul G. Blazer	Cincinnati
Josiah M. Koch	Pittsburgh
James M. Shriver	Baltimore
H. G. Chalkley, Jr.	New Orleans
Hal Bogle	El Paso
J. E. Wheat	Houston

The following were reappointed as directors of the respective branches of the Federal Reserve Banks shown each for a term of two years beginning January 1, 1948:

<u>Name</u>	<u>Federal Reserve Bank Branch</u>
Malcolm E. Holtz	Helena
W. A. Alexander	Denver
Y. Frank Freeman	Los Angeles
Aaron M. Frank	Portland
Henry A. Dixon	Salt Lake City

It was understood that the Chairmen of the respective Federal Reserve Banks would be requested to ascertain if the following would accept, if tendered by the Board, appointment as directors of the branches shown for terms beginning January 1, 1948:

<u>Name</u>	<u>Business</u>	<u>Federal Reserve Bank Branch</u>
J. Roy Faucett	Partner in Faucett Brothers, Northport, Alabama	Birmingham
Marshall F. Howell	President, Bond-Howell Lumber Company, Jacksonville, Florida	Jacksonville

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<u>Name</u>	<u>Business</u>	<u>Federal Reserve Bank Branch</u>
C. E. Brehm	Acting President of the University of Tennessee, Knox- ville, Tennessee	Nashville
Ben R. Marsh	Vice President and General Manager, The Michigan Bell Telephone Company, Detroit, Michigan	Detroit
M. P. Moore	Partner in E. E. Moore & Company, Senatobia, Miss- issippi	Memphis
Cecil W. Cotton	C. W. Cotton Supply Company, Tulsa, Oklahoma	Oklahoma City

Mr. Vardaman stated that he had asked that a draft of reply to a letter from Mr. Leedy, President of the Federal Reserve Bank of Kansas City, dated November 25, 1947, requesting approval of an increase from \$10,000 to \$20,000 in the total amount of loans that Bank might have outstanding to its employees, be considered at a meeting of the Board on the basis of the principles involved in making such loans.

In discussing the matter the view was expressed that the Federal Reserve banks should not make loans to employees and it was stated that some of the Federal Reserve Banks were making loans principally for the purpose of assisting employees confronted by emergency conditions in meeting hospital or doctors'

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and other such bills, that others were making loans on a more general basis for use in purchasing various articles, that the loan funds had been established many years ago, and that at least some of the Banks felt it was better to make such loans than to have the employees fall in the hands of loan sharks.

It was agreed unanimously that Mr. Smead should prepare a memorandum setting forth the history of the development of such funds at the Federal Reserve Banks, the purposes for which they had been used, and the reasons which might be advanced for discontinuing the funds completely with the understanding that the employees would get such funds as they might need through an available credit union.

It was understood that with the memorandum would be submitted a draft of letter to Mr. Sproul as Chairman of the Presidents' Conference asking that the matter be considered at the next meeting of the Conference.

There was a discussion of the anti-inflation bill proposed in the House of Representatives which among other things would restore a reserve requirement of 40 per cent against Federal Reserve note liabilities and 35 per cent against deposit liabilities of the Federal Reserve Banks, and of other questions discussed at recent hearings of committees of Congress with respect to a program for controlling inflationary developments.

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Chairman Eccles stated that he had been requested to appear before the Senate committee this week on the House bill and that he would suggest that the Board authorize him, if he should think it advisable, to have prepared and to present at that time statements which, by an objective statement of the facts but without attempting to criticize anyone, would (1) oppose the proposed increase in the reserves required to be maintained by the Federal Reserve Banks, (2) defend the position taken by the Board that the policy of low rates during the war period was not responsible for the existing inflationary conditions and (3) answer the charge that the Administration had not used its existing powers to fight inflation.

Upon motion by Mr. Evans and by unanimous vote, the authority requested by Chairman Eccles was granted.

At this point Messrs. Vest and Nelson withdrew 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 December 12, 1947, were approved unanimously.

Memorandum dated December 11, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending



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the transfer of Beverly A. Carter, a messenger in the Division of Research and Statistics, to the Division of Administrative Services as a mail clerk, effective upon the assumption of his new duties, with no change in his present basic salary of \$2,168.28 per annum. The memorandum also stated that the Division of Research and Statistics was agreeable to the transfer.

Approved unanimously.

Letter to Mr. Creighton, Federal Reserve Agent of the Federal Reserve Bank of Boston, reading as follows:

"In accordance with the request contained in Mr. Whittemore's letter of December 1, 1947, the Board approves the payment of salaries at the rates indicated effective December 3, 1947 to the following Alternate Assistant Federal Reserve Agents:

<u>Name</u>	<u>Annual Salary</u>
John F. Mooney	\$6,000
Lewis E. Stoye	4,500
Clifford E. Morrissey	3,800"

Approved unanimously.

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

"The Board approves the payment of salaries to the following officers for the period January 1, 1948, through April 30, 1948, at the rates indicated which are the rates set by the Board of Directors as reported in your letter of December 1, 1947:

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Frank C. Gilbody	Assistant Cashier	\$8,000
Edward R. Murphy	Assistant Cashier	7,500
Dana D. Sawyer	Assistant Vice President	8,000
Louis A. Zehner	Assistant Vice President	8,500
Elliot S. Boardman	Budget Officer	7,200
Elmo O. Adams	Assistant Cashier	6,750
Edward W. O'Neil	Assistant Cashier	6,750
John J. Rock	Assistant Cashier	6,750

"While your letter proposes that Mr. Boardman be designated Director of Budget, it is understood that in subsequent conversation with Mr. Nelson you stated the title 'Budget Officer' would be satisfactory.

"Mr. Creighton has been advised of the Board's action with regard to the salaries of the Alternate Assistant Federal Reserve Agents. A copy of the letter is enclosed for your information."

Approved unanimously.

Letter to the Chairmen of all Federal Reserve Banks prepared in accordance with the action taken at the meeting on December 5, 1947, and reading as follows:

"The Board has been reviewing its policies with respect to the appointment of Class C directors and directors of branches of Federal Reserve Banks. As a result of the review the Board has decided that, as a general policy, it will not hereafter appoint as a director of a Federal Reserve Bank or branch an individual who is 70 or more years of age or who would become 70 prior to the expiration of the term for which he would be appointed, and it will not hereafter reappoint as a director an individual who is 70 or more years of age.

"This letter supersedes the Board's letter of December 21, 1944, S-816."

Approved unanimously.

Letter to the board of directors of the "Citizens Bank

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of Cape Vincent", Cape Vincent, New York, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York.

Approved unanimously, together with a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the Citizens Bank of Cape Vincent, Cape Vincent, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York for his information.

"Since the estimated losses shown in the membership examination report are relatively small, the usual condition requiring elimination of losses has not been prescribed. It is assumed, however, that proper provision for losses will be made as a matter of sound banking practice."

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

"It is desired that the regular annual reports of holding company affiliates on Form F.R. 437 be obtained for the year ending December 31, 1947, or for the holding company affiliate's latest fiscal year if it differs from the calendar year. Accordingly, please request each holding company affiliate which has its principal executive office in your

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"district, and which holds a general voting permit, to file such a report in duplicate with your Bank not later than February 2, 1948.

"Please inform us as to the number of copies of Form F.R. 437 which your Bank will need, in excess of its present stock, in obtaining the reports of holding company affiliates in your district. The form has not been revised.

"It is requested that the annual reports of the holding company affiliates for 1947 be obtained and processed by your Bank in the same manner as the previous annual reports of holding company affiliates. This contemplates that one copy of each report will be forwarded to the Board immediately upon receipt by your Bank, to be followed as soon as practicable by such additional data and explanations as you may find it necessary to obtain from the respective holding company affiliates to complete or correct their reports. It is contemplated also that, after your Bank has analyzed and reviewed the reports of examination by the supervisory authorities of the banks and their affiliated organizations in each group, and has completed the final review of each report filed by a holding company affiliate, a copy of the memorandum relating to the review will be forwarded to the Board, together with any recommendations, comments, or suggestions which you may have regarding each case."

Approved unanimously.

Letter to Mr. Leonard, Director of the Division of Examinations, Board of Governors of the Federal Reserve System, reading as follows:

"Paragraph 7 of section 5240 of the Revised Statutes of the United States (section 21 of the Federal Reserve Act), as amended, provides that the Board of Governors of the Federal Reserve System, at least once each year, shall order an examination of each Federal Reserve Bank.

"In accordance with this provision of the law, the Board orders that at least one examination

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"of each of the 12 Federal Reserve Banks be made during the year 1948, and the Board authorizes and directs you to institute and conduct such examinations at such time or times as may seem advisable in your judgment."

Approved unanimously.

Letter to the Honorable Lindley Beckworth, House of Representatives, reading as follows:

"There is one statement in Mr. Faires' letter of December 8, 1947, which you sent us with your note of December 10, 1947, which calls for some further comment. The other statements in the letter are covered by my letter of November 7, 1947 to you.

"Mr. Faires states that reimbursement by the Federal Reserve Bank for transportation charges on direct sent items is paying interest on a demand balance just the same as the Federal Reserve System has told the city banks that they cannot do. This is not the case for the following reasons.

"Section 19 of the Federal Reserve Act as amended by the Congress in the Banking Act of 1935 provides that no member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand. The Board of Governors is authorized to determine what shall be deemed to be a payment of interest and to prescribe such rules and regulations as may be necessary to effectuate the purposes of the section and prevent evasions thereof. Because of the wording of the statute that no member bank shall 'directly or indirectly, by any device whatsoever' pay interest on demand deposits, the Board has felt impelled to take the position, which it has done in its regulation on this subject, that any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.

"The purpose of the Federal Reserve Banks in reimbursing their member banks for cash items sent

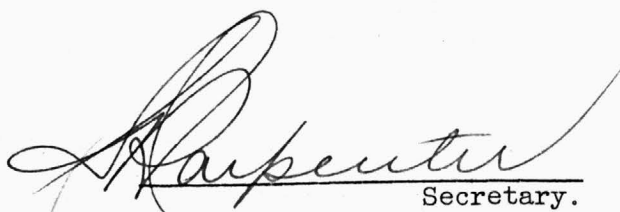
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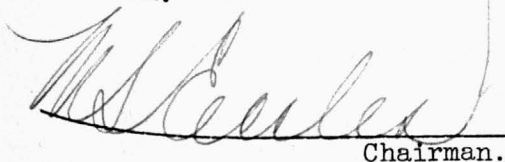
"direct has no relation whatever to the payment of interest. The balances maintained by member banks with their Federal Reserve Banks constitute their legal reserves and these balances must be maintained regardless of the services rendered by the Federal Reserve Banks. As stated in my letter of November 7, 1947, the purpose of the Federal Reserve Banks in reimbursing transportation costs on cash items sent direct is to eliminate one handling of the items. If these items are sent direct, the Federal Reserve Banks are saved the cost of this handling and the amount they reimburse substantially equals the transportation charges which it would be necessary for them to incur if the items were deposited with, and then forwarded by, them. We have had no information which would indicate that the arrangement for direct sending, which has been in operation at all of the Federal Reserve Banks since August 1, 1947, has had any effect on the balances maintained by member banks with their correspondent banks and it is the opinion of the Board that it will not have.

"Mr. Faires' letter of December 8 and the copy of my letter of November 7, 1947, attached thereto are being returned herewith."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.