

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 9, 1948. The Board met in the Board Room at 10:30 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. Smead, Director of the Division of Bank Operations

Mr. Thomas, Director of the Division of Research and Statistics

Mr. Vest, General Counsel

Mr. Townsend, Associate General Counsel

Mr. Carpenter stated that telegrams had been received under date of January 8 from the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas submitting for review and determination by the Board of Governors rates of 1-1/4 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, except advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13, and 1-3/4 per cent on advances under section 10(b). He also stated that the Federal Reserve Banks of Chicago and St. Louis had submitted for approval a rate of 2-1/2 per cent on advances to individuals, partnerships, and

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corporations other than member banks under the last paragraph of section 13 and that the Federal Reserve Bank of New York had submitted for approval a minimum buying rate of $1-1/4$ per cent on bankers' acceptances and on trade acceptances.

Mr. Carpenter stated that the $1-1/4$ per cent rate proposed for discounts and advances under sections 13 and 13a represented in all cases an increase from 1 per cent, that the increase to $1-3/4$ per cent in the rate of advances to individuals, partnerships, and corporations under section 10(b) conformed to the statutory provision that such rates must be not less than $1/2$ per cent higher than the highest discount rate in effect at the banks, that the increases at the Chicago and St. Louis Banks to $2-1/2$ per cent in rates on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13 brought the rates at those Banks to the same level that had been in effect since the spring of 1946 at the Federal Reserve Banks of New York, Richmond, and San Francisco, and that the increase in the minimum buying rate to $1-1/4$ per cent on acceptances at the New York Bank was in accordance with the Board's letter to that Bank under date of December 23, 1947.

It was agreed that the rates submitted should be approved

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to become effective on Monday, January 12, 1948, and that a statement should be given to the press this afternoon announcing that the Board had approved the action of the Banks in increasing their discount rates from 1 per cent to 1-1/4 per cent under Sections 13 and 13a of the Federal Reserve Act.

Upon motion by Mr. Draper, unanimous approval was given to the following telegrams, with the understanding that a statement would be given to the press this afternoon announcing that the Board today approved the action of the respective Federal Reserve Banks in increasing the discount rate from 1 per cent to 1-1/4 per cent effective Monday, January 12, 1948:

Telegram to Federal Reserve Bank of
New York

"Retel January 8 Board approves effective January 12, 1948, rate of 1-1/4 per cent on discounts and advances under Sections 13 and 13a except advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13; 1-3/4 per cent on advances under Section 10(b); and minimum buying rates of 1-1/4 per cent on bankers' acceptances and on trade acceptances. Otherwise Board of Governors of Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated January 8. Board will announce change at 3:30 PM, EST."

Telegram to the Federal Reserve Banks
of Philadelphia, Cleveland, Richmond,
Atlanta, Minneapolis, and Dallas

"Retel January 8 Board approves effective January 12, 1948, rate of 1-1/4 per cent on discounts

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"and advances under Sections 13 and 13a except advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13, and 1-3/4 per cent on advances under Section 10(b). Otherwise Board of Governors of Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated January 8. Board will announce change at 3:30 PM, EST.

"Board feels that minimum buying rate on bankers' acceptances should not in times like the present be below discount rate on eligible paper. It is suggested, therefore, that present minimum buying rate of 1 per cent on bankers' acceptances be increased accordingly."

Telegram to the Federal Reserve Banks
of Chicago and St. Louis

"Retel January 8 Board approves effective January 12, 1948, rate of 1-1/4 per cent on discounts and advances under Sections 13 and 13a except advances to individuals, partnerships, and corporations other than member banks; 2-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13; and 1-3/4 per cent on advances under Section 10(b). Otherwise Board of Governors of Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated January 8. Board will announce change at 3:30 PM, EST.

"Board feels that minimum buying rate on bankers' acceptances should not in times like the present be below discount rate on eligible paper. It is suggested, therefore, that present minimum buying rate of 1 per cent on bankers' acceptances be increased accordingly."

There was also presented a telegram to the Federal Reserve Bank of San Francisco stating that the Board approves the establish-

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ment without change by that bank on January 6, 1948 of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Pursuant to the action taken at the meeting of the Board on January 6, a memorandum had been prepared by Mr. Thomas under date of January 8, 1948, relating to prospective changes in bank reserves and Reserve Bank credit. Mr. Carpenter read the memorandum, which stated that during the first quarter of 1948 banks would be under unusually heavy pressure because of large withdrawals of funds from the market by the Treasury and the use of this cash surplus to retire maturing securities held by the Federal Reserve or to build up Treasury bank balances at the Reserve Banks, that this pressure would call for substantial purchases of securities by the Reserve System offsetting the retirement of maturing issues from the System's portfolio, that it was likely that there would continue to be a substantial demand for loans at banks during this three-month period, and that it remained to be seen to what extent the need for selling securities, as well as voluntary self-restraint, would cause banks to curb loan expansion.

Chairman Eccles said that, in view of the downward adjustment in Government securities prices late in December, in

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view of the fact that loans of New York City banks had shown a slight decrease in the last two weekly periods for which figures were available, and in view of the anticipated pressure on banks during the next few weeks, as outlined in Mr. Thomas' memorandum, it was doubtful whether reserve requirements of central reserve city banks should be increased immediately. He suggested that it would be desirable to observe the results of the discount rate action and to watch the tendency of loans of New York City banks during the next two weeks, at the end of which time the question of increasing reserve requirements of central reserve city banks by 2 per cent might again be reviewed.

Mr. Thomas stated that the pressure on the reserve position of banks would be heavy at the end of January and early in February, that it would be lighter toward the end of February, that it would again become heavy during the second half of March when large income tax payments were being received by the Treasury, and that if action were to be taken in the period it appeared that the end of February or early March would be the best time for an increase in reserve requirements to become effective.

There was a further discussion of the desirability of taking action at this time, during which it was suggested that

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if loans continued to expand during the next two weeks, if the inflow of gold continued, and if the Reserve System continued to purchase Government securities not eligible for bank investment, an increase in reserve requirements might be called for. Chairman Eccles also stated that if loans continued to expand during the next few weeks in the face of heavy pressures against credit expansion, including the recently announced program of the American Bankers Association for voluntary restraints by banks, the Board would be justified in putting banks under additional pressure by using the power it has to increase reserve requirements.

Mr. Vest expressed the opinion that with such a background the justification for taking a restrictive action and publishing notice in the Federal Register would be sounder from the legal standpoint than if action were taken at a time when loans were showing little change or a slight decline.

It was understood that the matter would be considered again at a meeting of the Board in about two weeks.

Mr. Vardaman stated that should he be absent when action to increase reserve requirements by 2 percentage points was taken he should be recorded as favoring the action.

Mr. Szymczak stated that when the Chairmen of the Federal Reserve Banks held their conference in Washington on December 1

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and 2, 1947, they appointed a committee consisting of Mr. McCabe, Chairman of the Philadelphia Bank, and Mr. Avery, Chairman of the Chicago Bank, to revise the Balderston Report relating to the development of executive personnel in the Federal Reserve System which had been prepared under a program adopted by the Chairmen in 1940 and 1941. He stated that in taking this action the Chairmen requested that a member of the Board work with Mr. McCabe and Mr. Avery, and he suggested that the senior member of the Board's Personnel Committee be designated to serve in this capacity.

Upon motion by Mr. Szymczak, it was agreed unanimously that Mr. Evans, as senior member of the Board's Personnel Committee, be designated to work with the Chairmen's committee, it being understood that when a change in the membership of the Personnel Committee took place, the member of the Board designated to work with the Chairmen's Committee would be the senior member of the Personnel Committee.

Mr. Szymczak said that at the meeting of the Chairmen in Washington in December, Mr. Dearmont had been appointed Chairman of a committee which also included Messrs. Brainard and Caldwell, Chairmen of the Cleveland and Kansas City Banks, respectively, to study the question of salaries of members of

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the Board of Governors and its staff with a view to making a recommendation to Congress through the Federal Advisory Council that such salaries be increased. He went on to say that for various reasons it did not seem appropriate at any time in the near future for a recommendation to emanate from any part of the Federal Reserve System that salaries of the Board be increased, and he suggested, therefore, that the executive committee of the Chairmen's Conference, which was meeting in Washington next Monday, January 12, be informed that it was the Board's view that it would be preferable if no action was taken by Mr. Dearmont's committee at this time.

Mr. Szymczak's suggestion was approved unanimously.

Mr. Szymczak stated that the Chairmen of the Federal Reserve Banks had also proposed that a spring meeting of the conference be held at a place other than Washington, and that hereafter two meetings of the conference be held each year, one of which would be outside of Washington. There was a general discussion of the timing of the next conference and of the desirability of holding it outside of Washington. There was some feeling on the part of some of the members of the Board that the

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conferences should all be held in Washington, but it was agreed that inasmuch as the Chairmen had the impression at the time of the last conference that the Board would not object to the holding of one conference a year outside of Washington, no such objection should be made at this time. It was the consensus that Mr. Szymczak, in collaboration with Chairman Eccles and in consultation with the executive committee of the Chairmen, should determine the time and place for holding the next conference, with the dates to be either the weekend of April 30 - May 2, 1948, or the weekend of May 29-31, 1948, and that preferably the location should be Williamsburg, Virginia, White Sulphur Springs, West Virginia, or Hot Springs, Virginia, since all of these points were not further away than overnight by train.

Mr. Szymczak then said that the Chairmen of the Reserve Banks had requested that they be kept more fully advised by the Board of current matters of interest to the System and that a member of the Board be designated to act as liaison with the Chairmen.

Upon motion by Mr. Szymczak, Mr. Evans was designated as the member of the Board to act in this capacity.

Reference was made to a draft of letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

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"This will acknowledge your letter of January 2, in which you refer to your letter of December 18 requesting an increase from \$3,000 to \$6,000 in the amount of your employee's loan fund, and to the Board's December 24 reply thereto.

"You state that at the present time you have outstanding loans amounting to \$2,618.72 and that you have on file several very deserving applications for loans which cannot be granted because of insufficient funds, and cite one case which you would particularly like to take care of. In view of the situations outlined in your letter of January 2, and pending the completion of the study of employee loan funds, the Board approves a temporary increase in the amount of the employee loan fund of your Bank from \$3,000 to \$5,000."

There was a discussion of the draft in the light of the action taken at the meeting of the Board on December 15, 1947, at which time Mr. Smead was requested to prepare a memorandum setting forth the history of the development of employee loan 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.

Mr. Smead stated that the study was in progress but that the memorandum would not be available for some time. He also said that Mr. Leach had indicated to him by telephone that, if the Board reached the conclusion that employee loan funds should be discontinued, he would be agreeable to that procedure. Mr. Smead suggested, however, that, so long as the loan funds were continued

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it would be desirable that the temporary increase requested by Mr. Leach be approved to permit the Richmond Bank to accommodate additional deserving cases until such time as the question of policy was decided.

Chairman Eccles stated that, while he was opposed in principle to the maintenance of loan funds by the Federal Reserve Banks for their employees, the increase proposed was small and he would have no objection to authorizing a temporary increase in the fund of the Richmond Bank to \$5,000 with the understanding that this action was taken only because of the situation existing at that Bank, as outlined in Mr. Leach's letter of January 2, 1948.

Upon motion by Mr. Vardaman, the letter to Mr. Leach was approved unanimously.

Mr. Horbett entered the meeting at this point.

Mr. Townsend stated that he had been searching for statistical information which would show the tendency of banks belonging to the Transamerica group to assume monopolistic characteristics, and that he felt it would be helpful to the study now being made by the Legal Division pursuant to the action taken at the meeting of the Board on October 31, 1947, if information were obtained as of December 31, 1947, showing deposits of branch banking systems by counties throughout the United States. He said that similar

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information for the years 1941-1944 was already available and that December 31, 1947, figures would permit a determination of changes that had taken place during the last three years.

Mr. Horbett stated that 274 branch banking systems in the United States would be involved in the collection of these statistics, that it was contemplated that two figures would be requested, namely, demand deposits and time deposits of individuals, partnerships, and corporations, and that the amount of work involved for the reporting banks was negligible.

Mr. Thomas stated that statistical information of this type was in frequent demand for various purposes and that he felt the information should be collected not only as of December 31, 1947, but also at regular intervals in the future.

Following a discussion of the possible usefulness of the information and of the amount of work involved, not only for the supervisory agencies but also for the reporting banks, it was agreed unanimously that steps should be taken to obtain the figures of time and demand deposits of individuals, partnerships, and corporations held by branch banking systems by counties as of December 31, 1947.

Mr. Clayton stated that on January 7 he was present at a meeting attended by Mr. Gunderson, Secretary of the Credit Policy Committee of the American Bankers Association, at which there were also present Comptroller of the Currency Delano, Chairman Harl of

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the Federal Deposit Insurance Corporation, and representatives of the National Association of Supervisors of State Banks. At the meeting, Mr. Clayton said, Mr. Gunderson outlined the program recently announced by the American Bankers Association for voluntary restraint of credit expansion by banks, stating that a series of 12 meetings was to be held in different parts of the country for the purpose of explaining the program to key bankers in the various areas, that the first meeting would be held on January 23, and that the Federal bank supervisory agencies and the State Bank Supervisors Association each were being invited to be represented at the meetings and to have a representative speak at three of the meetings, which would mean that one representative of the four groups would speak at each meeting. Mr. Clayton added that both the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation had accepted on behalf of their agencies the invitation to participate in the meetings, and that it would be his recommendation that he (Mr. Clayton) informally advise the representative of the American Bankers Association that the Board was in favor of credit restraint through voluntary action as proposed in the program and would be glad to participate in the meetings, with the understanding

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that the program should not be regarded as a substitute for the special reserve plan and that in any statement made by the Board's representative at the meetings he would attend, that would be made clear.

It was agreed that Mr. Clayton should submit for consideration a draft of the statement which he, as the Board's representative, would make in accepting the invitation of the American Bankers Association to participate in the meetings.

At this point Messrs. Smead, Thomas, Vest, Townsend, and Horbett 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 January 8, 1948, were approved unanimously.

Memorandum dated December 31, 1947, from Mr. Leonard, Director of the Division of Examinations, submitting for approval letters to the following foreign banking corporations calling for the submission of reports of condition as of December 31, 1947:

Bankers Company of New York	New York, New York
First of Boston International Corporation	Boston, Massachusetts
French American Banking Corporation	New York, New York
International Banking Corporation	New York, New York
Morgan & Cie. Incorporated	New York, New York
The Chase Bank	New York, New York

The memorandum also stated that the first five corporations were

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organized under State laws but operate under agreements made with the Board pursuant to the provisions of section 25 of the Federal Reserve Act, and that The Chase Bank was chartered by the Board under the provisions of section 25(a) of the Act.

Approved unanimously.

Memorandum dated January 5, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Evelyn M. Buckles as a clerk in that Division 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 Miss Buckles would become a member of the Federal Reserve retirement system.

Approved unanimously.

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

"Thank you for your letter of December 30, 1947, advising of the various actions taken by the Board of Directors at the meeting held on December 29.

"In accordance with the action taken with respect to the Industrial Advisory Committee, the Board of Governors approves the appointment of Messrs. Carl P. Dennett, Paul A. Draper, Edward M. Graham, J. Colby Lewis and Ralph E. Thompson as members of the Industrial Advisory

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"Committee for the First Federal Reserve District to serve for terms of one year each beginning March 1, 1948."

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of December 29, 1947, relating to an inquiry which you have received from The Hartford National Bank and Trust Company, Hartford, Connecticut, concerning a proposal under which the bank would set up a partnership, presumably consisting of officers or employees of the bank, to act as nominee for the purpose of the registration of securities held by the bank in trust accounts.

"You state that the bank has been advised by its counsel that, under State law, it is authorized to hold trust assets in the names of nominees, subject to the conditions stated in a recently enacted Connecticut statute which reads in part as follows:

'A state bank and trust company owning stock as a trustee may hold it in the name of a nominee, without mention of the trust in the stock certificate or stock registration book; provided (1) the trust records and all reports or accounts rendered by the trustee clearly show the ownership of the stock by the trustees and the facts regarding its holding; and (2) the nominee shall deposit with the trustee a signed statement showing the trust ownership, shall endorse the stock certificate in blank, and shall not have possession of the stock certificate or access thereto except under the immediate supervision of the trustee. The trustee shall be personally liable for any loss to the trust resulting from any act of such nominee in connection with stock so held. In case such state bank and trust company is acting as trustee with one or more co-trustees, it shall secure the consent in writing of such co-trustee or co-trustees

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"in advance to the registration of stock in the name of a nominee, and such co-trustees are authorized to consent thereto. The word "trustee" as used in this section shall include executors, administrators, guardians and conservators and trustees of trusts established by will or inter vivos instrument.'

"The bank has inquired, however, whether the proposed arrangement would conflict with section 11(b) of Regulation F, which reads in part as follows:

'Trust assets shall not be sold or transferred to the national bank, to its directors, officers, or employees, or other interests, or to affiliates of the bank * * *.'

"The Board concurs in your opinion that the registration of trust securities in the name of the proposed partnership under an arrangement consistent with the Connecticut statute would not violate this provision of the regulation."

Approved unanimously.

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

"Reference is made to your letter of December 31, 1947, submitting the request of the Lincoln Rochester Trust Company, Rochester, New York, for approval of the establishment of two branches in Corning, New York, in connection with the proposed absorption of the Corning Trust Company, and at the present banking locations of the bank to be absorbed.

"In view of your recommendation, the Board of Governors approves the establishment and operation of two branches in Corning, New York, by the Lincoln Rochester Trust Company, Rochester, New York, provided the absorption of the Corning Trust Company and the proposed increase in capital are effected substantially in accordance with the plan submitted; the prior approval of the appropriate State authorities is obtained, and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the proposed absorption and establish the branches."

Approved unanimously.

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Letter to Mr. R. E. Tulloss, President, Wittenberg College,
Springfield, Ohio, reading as follows:

"This refers to correspondence between you and the Federal Reserve Bank of Cleveland with respect to the status of Wittenberg College, Springfield, Ohio, as a holding company affiliate of Brookville National Bank, Brookville, Ohio.

"The Board understands that Wittenberg College, an educational institution, has, by bequest, become the owner of 1,000 of the 2,000 shares of stock of Brookville National Bank, Brookville, Ohio. It is also understood that Wittenberg College holds, by bequest, 230 shares of stock of the BancOhio Corporation and has acquired by purchase as an investment of endowment funds, shares of stock of certain other banks, but does not own or control any significant portion of stock of, or manage or control, any bank except the Brookville National Bank.

"In view of these facts the Board has determined that Wittenberg College is not engaged directly or indirectly as a business in holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies within the meaning of Section 2(c) of the Banking Act of 1933 as amended, and accordingly, Wittenberg College is not a holding company affiliate for any purposes other than those of Section 23A of the Federal Reserve Act.

However, the Board reserves the right to make a further determination at any time on the basis of the then existing facts and if there should be such a change in the facts as to indicate that Wittenberg College might be deemed to be engaged directly or indirectly as a business in holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies, this matter should again be submitted to the Board."

Approved unanimously, for transmission through the Federal Reserve Bank of Cleveland.

Telegrams to Mr. Creighton, Federal Reserve Agent of the

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Federal Reserve Bank of Boston, authorizing him to issue limited voting permits, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Shawmut Association" and "The National Shawmut Bank of Boston", both of Boston, Massachusetts, entitling such corporations to vote the stock which they own or control of the "Somerville National Bank", Somerville, Massachusetts at any time prior to April 1, 1948, to elect directors of such bank at the annual meeting of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

Approved unanimously.

Telegrams to Mr. Parten, Federal Reserve Agent of the Federal Reserve Bank of Dallas, authorizing him to issue limited voting permits, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Republic National Bank of Dallas", and the "Republic National Company", both of Dallas, Texas, entitling such corporations to vote the stock which they own or control of the "Fair Park National Bank of Dallas", the "National City Bank of Dallas", and the "Oak Lawn National Bank of Dallas", all of Dallas, Texas, at any time prior to April 1, 1948, to elect directors of such banks at

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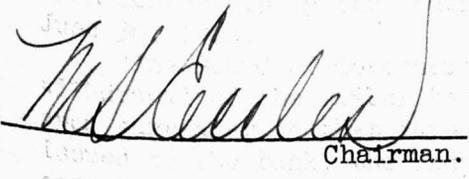
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the annual meetings of stockholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks. The telegram also asked Mr. Parten to inform the applicants that the Board expects them to use their best efforts to accomplish compliance in the near future with the requirements of the Board for the granting of general voting permits.

Approved unanimously.


Secretary.

Approved:


Chairman.