Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 27, 1948.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 26, 1948, were approved unanimously.

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

"As you know, many cases involving the question whether particular interlocking relationships come within the prohibition of section 32 of the Banking Act of 1933 were considered in the years immediately following the revision of the law in 1935. It seems probable that in some instances at least the circumstances which existed at the time that the cases were considered have now changed. Moreover, section 32 has received the interpretation of the Supreme Court in the Agnew-Fayerweather case, which, as you know, was decided early in 1947. In the light of these circumstances, the Board feels that it is desirable that a review be currently made of cases in which the Board or a Federal Reserve Bank has heretofore taken the position that the organization involved was not affected by the statute on the ground that the extent to which it was engaged in the types of business described in section 32 was not sufficient to make it 'primarily engaged' in such business.

"In this connection, your attention is invited to the following brief extracts from the opinion of the

"Supreme Court in the Agnew-Fayerweather case.

'If the underwriting business of a firm is substantial, the firm is engaged in the underwriting business in a primary way though by any quantitative test underwriting may not be its chief or principal activity.'

'Section 32 is directed to the probability or likelihood, based on the experience of the 1920's that a bank director interested in the underwriting business may use his influence in the bank to involve it or its customers in securities which his underwriting house has in its portfolio or has committed itself to take. That likelihood or probability does not depend on whether the firm's underwriting business exceeds 50 per cent of its total business. It might, of course, exist whatever the proportion of the underwriting business. But Congress did not go the whole way; it drew the line where the need was thought to be the greatest. And the line between substantial and unsubstantial seems to us to be the one indicated by the words "primarily engaged."'

"Depending upon the circumstances involved, it would seem that an organization might be primarily or substantially engaged in the classes of business specified in section 32 when the underwriting or distributing business of the firm is substantial in relation to its total business (as measured by the dollar volume of each or by some other reliable criterion), or substantial in relation to the total underwriting or distributing business of all firms in the nation, or (if the organization is not operating in a large financial center) substantial in relation to the total underwriting or distributing business of the firms and organizations in the community in which it is operating. Factors other than these may also show that an organization falls within the statute and it is important that all pertinent facts should be taken into consideration.

"It will be appreciated if at your early convenience you will obtain the information described below so far as it is available with respect to the cases in which your bank or the Board has heretofore advised that an interlocking relationship between a particular firm and a member bank was not affected by the provisions of the statute for the reason indicated in the first paragraph of

"this letter (assuming, of course, that the relationship still exists) and transmit the list of these cases, together with all such information, to the Board for its consideration. This procedure should be followed with respect to all such cases unless in exceptional instances you are entirely satisfied that the facts now known or obtained by you so clearly demonstrate that the institution involved does not come within the law that there is no need for any further consideration of the case. The procedure, however, is not intended to apply to cases involving investment trusts where the only question has been whether they fall within the purview of section 32 because of the sale of their own shares, unless there are special reasons which you feel make a review of any such cases desirable.

"As a basis for the consideration of any case, you are requested to ascertain, if possible, the following items of information for each of the last four calendar years, 1944-1947: (1) The dollar volume of the underwriting and distributing business engaged in by the firm or organization in question; (2) the percentage ratio of such dollar volume to the dollar volume of the firm's total business; (3) the percentage ratio of such dollar volume to the dollar volume of all underwriting engaged in by all firms in the country*; (4) if the firm is located or operating in a community other than a large financial center, the percentage ratio of such dollar volume to the dollar volume of all underwriting and distributing engaged in by all firms in the community, to the extent such information may be available; (5) the gross income of the firm from underwriting and distributing and the percentage ratio of such income to the total gross income of the firm; (6) the number of issues in which the firm participated as underwriter or distributor; (7) the rank of the firm in the underwriting field as indicated by any reliable publications, if available; (8) whether the firm has a separate underwriting or distributing department; (9) whether or not

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"*The dollar volume of all underwriting engaged in by all firms is not yet available for 1947 but this figure, covering each of the four years in question, will be sent you as soon as available.

"the firm holds itself out as being in the underwriting and distributing business and whether or not its advertisements or reports, if any, refer to or emphasize such underwriting and distributing; and (10) whether there is more than one office of the firm and, if so, the number and location of the other offices. In addition to these factors, there will, of course, in particular cases be other factors which may have a bearing upon the consideration of the question and all such factors should be developed as fully as practicable. This may be true particularly in the case of organizations which engage in the practice of acquiring blocks of previously issued securities and selling them for their own account (secondary distributions).

"The Board realizes that it will be necessary for you to obtain much of this information directly from the firms concerned and it will be in order for you, if you wish to do so, to advise the persons concerned that the Board of Governors is conducting a review of the application of section 32 of the Banking Act of 1933 to existing interlocking relationships but that, before the Board reaches a conclusion that the statute is applicable in any such case, further notice will be given to such persons and they will be afforded an opportunity to submit such additional information and comments as they may wish."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of January 16, 1948, in regard to the Board's letter of December 16, 1947, that postponed until July 1, 1948, further consideration of action proposed with respect to direct sendings of member banks where the volume of such checks payable in the territory of another Federal Reserve Bank or branch averages 300 or more per day.

"It is noted from your letter that if you were to require the banks having 300 or more items per day to route them direct, it would not mean that there would be any substantial reduction in the number of items

"handled by your Bank, and that if you were to insist on direct routing of items drawn on the tip-ends of the states of Illinois, Indiana, Michigan and Wisconsin it would entail additional operations and additional expense for your member banks. You state that to enforce the requirement for direct routing might result in delaying receipt by you of regular items from the banks, even to the extent that many items might have to be held over.

"As pointed out by Chairman Eccles at the last Presidents' Conference, the Board feels that the 50 or 60 banks that were depositing in a Federal Reserve Bank more than a daily average of 300 items payable in the territory of another Federal Reserve Bank or branch should be required to send such items direct or to sort and list them separately, and failing this that all banks should be given the privilege of depositing such items with their own Federal Reserve Banks. It does not seem to the Board that the requirement for direct routing can justifiably be enforced for certain banks and not for others. It is realized that it may be more expensive for certain banks in your District to sort and route the items direct than to deposit them unassorted in the Federal Reserve Bank. The Board feels, however, that the over-all cost should be less where the items are sorted and dispatched by member banks than where they are deposited unassorted with the local Federal Reserve Bank, thus involving duplicate handling. It is the over-all cost with which we are primarily concerned. It is hardly worthwhile for the Federal Reserve Banks to handle items unless it results in an improvement in the check collection procedure either from the standpoint of economy or the earlier presentation of checks.

"It is not clear to us why the enforcement of the direct routing requirement would result in the holding over of any items. If member banks deposit items with you unassorted your Bank has to do the necessary sorting and forwarding. If, however, the items are properly sorted by the member banks, they would probably be routed direct, particularly since the Federal Reserve Bank would pay the transportation charges, in which case presentment might be expedited. If, however, such assorted items were deposited with the Federal Reserve Bank there should be

"no cause for delay since they could be forwarded to the appropriate Federal Reserve Bank or branch without further sort.

"In the last paragraph of your letter you state that Mr. Turner, Assistant Vice President, has in mind suggesting additional changes in the system for handling checks by the larger banks and you are confident that you could not obtain their cooperation should you insist on what you consider a minor matter in view of the heavy volume of checks and the 100 per cent cooperation which you are receiving from banks having large check departments. The Board would be interested in knowing what changes Mr. Turner has in mind to suggest with respect to the handling of checks by the larger banks.

"Since it was the intent that the Federal Reserve Banks would endeavor to bring about the direct routing on a voluntary basis prior to July 1, 1948, you may find it worthwhile to discuss this matter with the Presidents of the other Federal Reserve Banks at the time of the February conference."

Approved unanimously.

Letter to the Honorable Hugh Butler, Chairman, Committee on Public Lands, United States Senate, reading as follows:

"It is understood that there is pending before the Committee on Public Lands of the Senate a bill, H. R. 49, providing for the admission of the Territory of Hawaii as a State of the Union, which passed the House of Representatives on June 30, 1947. In this connection, the Board of Governors of the Federal Reserve System wishes to recommend for the consideration of your Committee an amendment to this bill with respect to a matter of direct interest to the Board, the Federal Reserve System, and the banking structure of the United States.

"When the Federal Reserve Act was enacted in 1913, all national banks were required to be members of the Federal Reserve System because, in the words of the report of the House Banking and Currency Committee on the original Act, 'banking institutions which desire to be known by the name "national" should be required, and can well afford, to take upon themselves the responsibilities involved in joint or federated organization.' How-

"ever, it was apparently the feeling of Congress at that time that national banks located in the Territories and dependencies were so distant and remote that it would not be necessary or proper to require such national banks to be members of the Federal Reserve System. Accordingly, the Act contains a provision which makes membership in the System optional in the case of national banks, as well as locally chartered banks, located in Alaska, in dependencies and insular possessions, and in 'any part of the United States outside the continental United States.'

"Since 1913, however, the tremendous progress of air transportation has brought Hawaii so close to the continent that today it cannot be said that the economy and banking structure of Hawaii are unrelated to those of the continental United States. Travel and transportation to Hawaii are now a matter of hours instead of weeks as was the case in 1913. Consequently, the advantages and privileges of membership in the Federal Reserve System would now be more readily available to banks in Hawaii than they were in 1913. Not only has Hawaii been brought closer to the continent in point of time, but banking conditions in Hawaii have changed considerably since the enactment of the Federal Reserve Act. The total deposits of Hawaiian banks are more than 25 times as great as they were in 1913; and their total resources today are more than those of all banks in each of 7 States of the Union. While there is only one national bank in Hawaii at the present time, that bank is larger than any bank in 28 of the existing States.

"It is the feeling of the Board, therefore, that if Congress should decide that the Territory of Hawaii may now properly be admitted to Statehood, national banks in the proposed State of Hawaii should be subject to the same responsibilities and obligations as national banks located in any other State of the Union. The bill itself provides that, if it becomes a State, Hawaii shall be on an equal footing with the other States. It would seem logical that this equality should exist in the field of banking as well as in other respects and that, consequently, the proposed State of Hawaii should be included in one of the Federal Reserve districts and that national banks in Hawaii should be subject to the same requirements as other national banks.

"Under present law, all national banks in each of the existing States of the Union are required to be members of the Federal Reserve System and, as such members, to be insured banks and to be governed by the many important statutory limitations and restrictions which by their terms are applicable to member and insured banks. Thus, member banks are prohibited from paying interest on demand deposits, from making loans to their executive officers, and from being affiliated with securities companies; and they are in effect prohibited from charging exchange on checks drawn against them. These and numerous other restrictions and limitations are not at present applicable to national banks in Hawaii; and they would continue to be inapplicable to such national banks if Hawaii should become a State in accordance with the provisions of the bill H. R. 49.

"In the Board's opinion, there is no sound reason why any national banks located in a new State of the Union, enjoying the prestige and privileges conferred by organization under the National Bank Act, including the right to act as depositories of Government funds, should be exempt in this manner from the obligations and responsibilities which must be assumed by national banks in other States.

"The Board recommends, therefore, that there be included in the bill H. R. 49 provisions which would have the effect of requiring national banks in any Territory to become members of the Federal Reserve System upon the formal admission of such Territory as a State of the Union; and there is enclosed a draft of a brief amendment to the bill which would have this effect.

"The Board has taken this matter up with the Federal Deposit Insurance Corporation and with the Comptroller of the Currency and both of those agencies have advised that they concur in the Board's opinion that national banks located in any Territory should be required to become members of the Federal Reserve System upon the admission of the Territory to Statehood.

"The Board hopes that this matter will receive the favorable consideration of your Committee."

Approved unanimously.

Letter dated January 26, 1948, to Mr. Charles T. Reyner, Vice Chairman, National Symphony Sustaining Fund Campaign, War Assets Administration, reading as follows:

"The Board of Governors has received the letter dated January 21, 1948, from Mr. Dawson, Administrative Assistant to the President, with respect to the Sustaining Fund Campaign for the National Symphony Orchestra Association.

"In the past, it has been the policy of the Board to restrict the solicitation of donations of this kind to national campaigns, such as the Community Chest, the American Red Cross, and the Mile O' Dimes. The reason for this has been that to undertake a wider activity would constantly raise questions as to where the line should be drawn. Therefore, it would not be consistent with our policy actively to solicit employees for donations to the Sustaining Fund Campaign.

"However, while our organization is comparatively small, we know that some of the employees of the staff are interested in the National Symphony Orchestra. Accordingly, if you will send a supply of pledge cards to Mr. Herbert A. Johnson, Personnel Officer, we will be glad to see that employees are advised that they may contribute to the campaign through his office if they so desire."

Approved unanimously.

Letter to Mr. R. G. Martin, Pensacola Hardware Company, Inc., 21 East Garden Street, Pensacola, Florida, reading as follows:

"Thank you for your letter of January 15, 1948, regarding easy credit terms offered for floor furnaces and other home improvement articles.

"We have been much concerned, under present conditions of strong inflationary pressures, with the loose credit terms prevailing in the housing fields, and we recognize that much of this credit is sponsored by Government agencies. Chairman Eccles, in a statement before a congressional committee last November,

"pointed out the inconsistency of restricting credit on automobiles and other consumer durable goods while sponsoring inflationary housing credit. You may be interested in the full statement, a copy of which is enclosed.

"We appreciate your interest in writing to us."

Approved unanimously.

Memorandum dated January 27, 1948, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the February issue of the Federal Reserve Bulletin a statement in the form attached to the memorandum with respect to the following subject:

Reserves
Central Reserve City Banks

Approved unanimously.

Secretary.

Approved:

Chairman.