

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 2, 1948.

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 1, 1948, were approved unanimously.

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

"Reference is made to your letter of February 18, 1948, submitting the request of The Brooks Bank and Trust Company, Torrington, Connecticut, for approval of an additional investment of \$165,000 in bank premises in lieu of the additional investment of \$110,000 previously proposed which was approved by the Board of Governors on February 14, 1946.

"It is understood that the investment as presently proposed has been approved by the appropriate State authorities subject to certain conditions and, in view of your recommendation, the Board approves the proposed additional investment in banking premises by The Brooks Bank and Trust Company provided the aggregate carrying value of the bank's investment in land, buildings, furniture and fixtures does not exceed \$240,000 and the other conditions imposed by the State banking authorities are met."

Approved unanimously.

An application had been received under date of January 13, 1948, from "The Chase National Bank of the City of New York", New

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York, New York, requesting approval of the Board to establish and maintain in Heidelberg, Germany, a branch of "The Chase National Bank of the City of New York", and a letter had been received under date of January 14, 1948, from Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, recommending that the application be approved. The Board had also been advised by the Office of the Comptroller of the Currency on January 23, 1948, and by the Department of the Army on February 25, 1948, that those departments had no objection to the establishment of the proposed branch.

The following order was adopted  
by unanimous vote:

"ORDER

"WHEREAS The Chase National Bank of the City of New York has made application to the Board of Governors of the Federal Reserve System, pursuant to the provisions of section 25 of the Federal Reserve Act, for permission to establish a branch at Heidelberg, Germany; and

"WHEREAS it appears that the said bank may properly be authorized to establish a branch at Heidelberg, Germany;

"NOW, THEREFORE, The Chase National Bank of the City of New York is authorized to establish a branch at Heidelberg, Germany, and to operate and maintain it subject to the provisions of section 25 of the Federal Reserve Act, upon condition that unless the branch is actually established and opened for business on or before March 1, 1949, all rights hereby granted as to such branch shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

"Dated: March 2, 1948"

In connection with the above matter, the following letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, was approved unanimously:

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"Enclosed is a certified copy of an order of the Board of Governors authorizing The Chase National Bank of the City of New York to establish a branch at Heidelberg, Germany, which you will please deliver to the bank. A copy of the order is enclosed for your files.

"Please ask the bank to note that the authority to establish the branch will automatically terminate on March 1, 1949, if the branch is not actually established and opened for business on or before that date, and request the bank to advise the Board in writing through the Federal Reserve Bank of New York when the branch is so established and opened for business."

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

"Reference is made to your letter of February 20, 1948, submitting the request of the Lincoln Rochester Trust Company, Rochester, New York, for approval of the establishment of a branch in Canandaigua, New York, in connection with the proposed absorption of the Ontario County Trust Company.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Canandaigua, New York, by the Lincoln Rochester Trust Company, Rochester, New York, provided the merger with the Ontario County Trust Company is 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 branch."

Approved unanimously.

Letter to Mr. McConnell, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Enclosed are copies of a letter dated February 20, 1948, and a resolution passed February 19,

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"1948, received from the Bank of Sheridan, Sheridan, Montana. The wording of the resolution appears to defeat its purpose but Board's Counsel is of the opinion that the intent seems evident, particularly in view of the accompanying letter and the fact that any other action would have been meaningless.

"A proposed reply to the member bank, with a copy for your files, is also enclosed, which you are requested to forward unless you feel that the matter should be handled in some other manner, in which case we would like to have your recommendation.

"The copy of the bank's letter of December 30, 1947, received with your letter of January 2, 1948, indicates that the resignation of Mr. Paris W. Robert as a director was accepted and, therefore, it would appear that the bank now has only four directors. If the bank is to continue as a member of the Federal Reserve System, please advise us as to what action has been or will be taken to comply with the requirement that it shall have not less than five directors."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"With further reference to your letter of February 5, 1948, and the Board's reply dated February 12, 1948, there are enclosed two copies each of a memorandum submitted by George R. Wilkinson, Examiner for the Federal Reserve Bank of Kansas City, and a letter dated January 9, 1948, from the President of the Merchants Bank of Kansas City to President Steffins of the Bank of Odessa, Odessa, Missouri, both pertaining to the handling of a certain loan by the Merchants Bank secured by capital notes of the Bank of Odessa.

"The Board is advised that the enclosed documents were inspected in Kansas City by the examiner for the FDIC who conducted the recent examination of the Bank of Odessa and who feels that the information contained therein is satisfactory for your purposes. In particular, it appears that payment of the note of President Steffens secured by capital notes of the Bank of Odessa

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"which matured January 1, 1948, was effected January 9, 1948, through a debit item originating in Odessa against the account of the Bank of Odessa with the Merchants Bank of Kansas City.

"The Board and the Reserve Bank are glad to have had the opportunity to be of service."

Approved unanimously.

Letter to Mr. Milton N. Mound, Attorney at Law, 295 Madison Avenue, New York 17, New York, reading as follows:

"This is in reply to your letter of February 19, regarding the provisions of the Board's security loan regulations that restrict substitution of securities in, and withdrawals from, undermargined accounts.

"You are correct in your understanding that these provisions would prohibit either of the two sets of transactions proposed in your letter, assuming, of course, that in neither case would the transactions result in a debit balance smaller than the maximum loan value of the securities in the account. The rules in question are provided in the Board's Regulation T, and we are glad to outline the reasons for them.

"The essential reason for the restrictions on substitutions and withdrawals is that they help to restrain the inflationary use of credit in the securities markets. The Board is authorized and directed by the Securities Exchange Act of 1934 to prevent the excessive use of credit for the purchase or carrying of securities. It is true, of course, that the sale of one security and the purchase of another with the proceeds do not increase the amount of the customer's debit balance -- that is, the amount of credit in use -- but they do affect the amount of use made of outstanding credit. If the rule against substitutions were not in effect, speculators could and would purchase and sell securities over and over again using the same borrowed money, and the same would be true of cash withdrawn from undermargined accounts. Also, these provisions, together with the margin requirement, work in the direction of bringing about a gradual increase of the margin in

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"undermargined accounts toward the standard prescribed by the regulation.

"Moreover, these rules serve to strengthen the 75 per cent margin requirements. In fact, they are in substance a part of that requirement. When one commitment is closed out, the rules assure that a new commitment cannot be undertaken unless the account or the new commitment is on a 75 per cent basis, just as would be required for a new customer. If it were not for the restrictions on undermargined accounts, the same degree of restraint on stock market credit would require either higher margin requirements than 75 per cent or that the Board exercise its statutory authority to require liquidation. The present rules seem to us to be preferable to equivalent alternatives. They do not force the liquidation of previously-held commitments that are undermargined, but on the other hand they do not give undue advantage to old accounts.

"The Board believes that the present terms of the regulation are in the public interest at this time and that they carry out the intent of Congress under the statutory mandate. Relaxation of the provisions now would only add to the supply of credit without increasing the production of goods, which is limited by shortages of key materials and manpower. That is to say, it would be of distinctly inflationary tendency."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Honorable Edith Nourse Rogers, House of Representatives, reading as follows:

"This refers to your letter of February 20, 1948, asking for the Board's comments and recommendations regarding H. R. 5120, a bill to amend the Servicemen's Readjustment Act of 1944, as amended.

"In general, the bill would provide certain loans, grants, Government guaranties, and tax



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"exemptions in connection with veterans' housing. As indicated below, these would be made available chiefly through State agencies or subdivisions.

"To finance veterans' housing State agencies or subdivisions would be authorized to issue bonds which would be fully guaranteed as to principal and interest by the United States, and the interest on such guaranteed bonds would be exempt from all Federal taxation. Such guaranteed bonds could be issued in an aggregate amount of \$2,000,000,000.

"The Administrator of Veterans Affairs would be authorized to advance working capital and 'interim financing' to State agencies and subdivisions in connection with veterans' housing at an interest rate of one-half of 1 per cent per annum, and \$100,000,000 would be authorized to be appropriated for this purpose.

"The Federal Works Administrator would be authorized to make grants to State agencies and subdivisions covering one-half the cost of public facilities in connection with housing under the bill. An appropriation of \$200,000,000 would be authorized for this purpose.

"The interest and principal paid by any veteran who acquired a home under the bill could be deducted by the veteran for the purpose of computing Federal income tax if the total cost of the home did not exceed \$15,000.

"Whatever merit some such bill might have in other circumstances, the Board believes that this bill should not be enacted in the present situation. One of the most inflationary factors at this time is excessively easy mortgage credit for housing. More than half of the current unprecedented mortgage lending is sponsored by the Federal Government under legislation enacted by the Congress and this bill would add to the already generous provisions for mortgage credit. The Government must therefore assume much of the responsibility for any adverse effects of this type of lending under which sellers and builders of houses are enabled to make exorbitant profits, and families of moderate and low income are encouraged to assume mortgage debt beyond their ability to pay when the present inflationary period is over. In this connection, your attention is invited to my statement on home financing before the

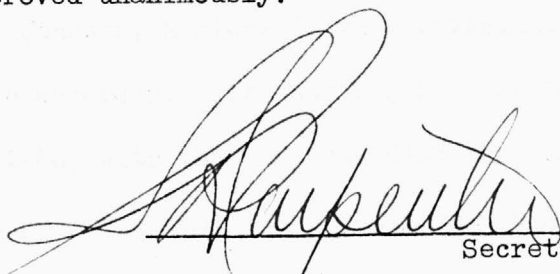
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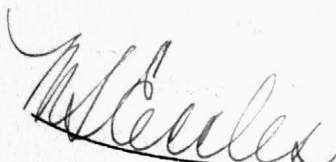
"Joint Committee on the Economic Report on November 25, 1947, of which a copy is attached.

"While it seems unnecessary to enter extensively upon a discussion of other aspects of the bill, the Board feels that, aside from the substantial additional appropriation of Government funds proposed for housing purposes without reimbursement, it provides for a loan rate for working capital and 'interim financing' which is substantially below the cost of money to the Government, for a highly questionable tax exemption on payments on home mortgages, and for a tax exemption on bonds which is not in harmony with Government policy, particularly as expressed in the Act of February 19, 1941, of withdrawing tax exemption from all obligations issued after March 28, 1942 by the United States or any agency or instrumentality thereof. Moreover, it is not consistent with the heavy responsibilities of the Treasury for the management of the existing large public debt to place elsewhere the issuance and sale of Government guaranteed bonds which would be authorized by this bill."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman pro tem.