

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 5, 1948.

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

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 April 2, 1948, were approved unanimously.

Memorandum dated March 30, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Sara Josephine Parrish as a clerk-typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$1,954 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 Parrish would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated April 1, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Leonard M. Davis as a painter in that Division, on a temporary basis for a period of three months, with basic salary at the rate of \$2,469.24 per annum, effective as of the date upon which he enters upon the performance of his duties after having

4/5/48

-2-

passed the usual physical examination. The memorandum also stated that it was not contemplated that Mr. Davis would become a member of the Federal Reserve retirement system during his employment on a temporary basis.

Approved unanimously.

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

"In accordance with the request contained in your letter of March 30, 1948, the Board approves the appointment of Nils S. Jacobson, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago. Please advise us of the date upon which the appointment is made effective and also as to salary rate."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 30, 1948, the Board approves the appointment of Harold L. Noelting, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago. Please advise us of the date upon which the appointment is made effective and also as to salary rate."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This is with reference to your letter of March 5, 1948 regarding loans by your bank as to which you accept custody receipts issued by city correspondent banks covering the Government securities which are the basis for the loans.

4/5/48

-3-

"You refer to a loan which your bank recently made to a member bank in Savannah, Georgia, against Government securities which the Savannah bank had deposited with its correspondent, The Trust Company of Georgia, Atlanta, Georgia. It appeared that The Trust Company had redeposited the securities with its own New York correspondent, and under the Board's letter S-1000 of November 25, 1947, you felt it necessary to have The Trust Company communicate with its New York correspondent and have that correspondent issue its custody receipt to your bank, indicating thereon that the securities were the property of the Savannah bank.

"You suggest that in such cases your bank would be willing to dispense with the procedure of obtaining a custody receipt running from the New York correspondent to the Reserve bank, and would be willing to accept, instead, a custody receipt of The Trust Company of Georgia, which receipt would contain no reference as to where the security might be located. You state that your ability to accept such a custody receipt, which would amount to a custody receipt issued against a custody receipt, would be helpful in promptly serving your member banks in a number of instances.

"In the circumstances, the Board would not be disposed to object to your accepting a custody receipt such as you suggest in cases such as you describe, provided such steps are taken as are adequate in the opinion of your Counsel to assure that your bank has a lien on the specific Government securities which will be fully effective against any other claimants. In this connection the general principle which is stated in section 8 of the Restatement of the Law of Security and quoted at 46 Fed. Supp. 381, 383, would seem to be relevant. This is to the general effect that in order to create a pledge where the property is held by a third person rather than delivered to the pledgee, the third person must be notified. Although the rule is usually stated without regard to the possibility of a 'fourth' person (here the New York correspondent who actually holds the bonds) being involved, it would seem to suggest the desirability of notifying such a 'fourth' person if it is decided not to take a custody receipt running directly from such 'fourth' person to the pledgee."

4/5/48

-4-

Approved unanimously, together with a letter to the Presidents of all Federal Reserve Banks reading as follows:

"At the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on February 27, 1948, there was a further discussion of the Board's letter of November 25, 1947 (S-1000), in which it was stated that it appeared to the Board that the Reserve Banks might properly accept for reasonable periods custody receipts of responsible city correspondent banks as collateral for advances made to member banks where actual delivery of securities was not convenient for the borrowing bank.

"At the meeting the Board expressed the view that it would be desirable that all Federal Reserve Banks follow the suggested practice, as a matter of System policy, in any case where the Bank would be willing to make advances to a member bank if the securities were deposited physically at the Federal Reserve Bank; that the credit facilities of the Federal Reserve Banks should be made to work as conveniently and expeditiously as possible; that failure to provide this facility might make it necessary at times for member banks, instead of borrowing on Government securities, to sell them in the market when such sales were not desirable from the standpoint of System policy; and that the new wire transfer facilities recently inaugurated would not satisfactorily meet this problem even if extended to include transfers of Government securities for use as collateral. Several of the Presidents appeared to concur in the view that to inaugurate a policy for accepting custody receipts from all correspondent member banks might present difficulties which could not be easily overcome once the arrangement was put into effect; that it might be unwise to accept custody receipts from some correspondent banks--for example, where a correspondent bank was accepting securities for safekeeping out of any reasonable proportion to its vault facilities; and that it would be difficult to discriminate between correspondent banks in determining from which of them custody receipts would be acceptable.

"It was understood that the Board would review the matter in the light of the discussion at the joint meeting and would submit a proposed policy statement to the Federal Reserve Banks and that after the comments of the Banks were received a revised statement would be submitted

4/5/48

-5-

"to the Reserve Banks for consideration. Pursuant to this understanding the Board now suggests a procedure which would be substantially as follows:

"The Federal Reserve Banks in 1947, in recognition of the existing practice of member banks of having securities held where they can be sold quickly, particularly in the New York market, without incurring substantial shipping charges, adopted a procedure under which the Federal Reserve Bank of New York agreed to accept the deposit of Government securities, in limited amounts, belonging to a member bank in another Federal Reserve district in order that such securities might be used as collateral for a loan to such member bank by the Federal Reserve Bank of its district. This procedure requires the physical deposit of the securities with the Federal Reserve Bank of New York and their redelivery to the New York correspondent bank when the need for borrowing by the member bank has passed.

"With a view to further improvement in the services of the Reserve Banks to their member banks and in order that their credit facilities may operate as conveniently and expeditiously as possible, any Federal Reserve Bank will also accept as collateral security for a loan to a member bank custody receipts covering Government securities, in form satisfactory to the Reserve Bank, issued by a member bank which in the usual course of business performs correspondent bank services, including the holding in custody of Government securities, for the borrowing member bank.

"In accordance with the understanding at the joint meeting on February 27, it will be appreciated if you will give the Board the benefit of your views on this suggested procedure and also on what steps should be taken to bring the proposed service to the attention of member banks. After the comments of all of the Presidents have been received, a revised statement of procedure will be prepared and sent to all of the Federal Reserve Banks."

4/5/48

-6-

Letter prepared for Chairman Eccles' signature to the Honorable C. Douglas Buck, United States Senate, reading as follows:

"This is in reply to your letter of April 1, 1948, enclosing a copy of the bill S. 2287, to amend the Reconstruction Finance Corporation Act, as recently reported by the Senate Banking and Currency Committee, and requesting to be advised whether there is any objection to the proposed amendment to section 24 of the Federal Reserve Act which is set forth in section 9 on page 14 of the bill.

"Section 24 of the Federal Reserve Act contains certain limitations on the making of real estate loans by national banks, such as restrictions as to the maturity of the loan, the ratio of the amount of the individual loan to the value of the property, and the aggregate amount of such loans. In 1935, that section was amended to exempt from these limitations loans made to industrial or commercial businesses in which the Reconstruction Finance Corporation cooperates or purchases a participation 'under the provisions of section 5d of the Reconstruction Finance Corporation Act.' When the latter Act was revised by the Act of June 30, 1947, the authority of the Reconstruction Finance Corporation to cooperate or purchase participations in business loans was continued substantially unchanged but was incorporated in section 4(a) of the revised Act. Literally, therefore, the reference in section 24 of the Federal Reserve Act to section 5d of the Reconstruction Finance Corporation Act is no longer correct or appropriate.

"It is our understanding that the only purpose of section 9 of the bill S. 2287 is to correct this technical defect in the law and to continue in effect the exception provided in section 24 of the Federal Reserve Act with respect to business loans in which the Reconstruction Finance Corporation cooperates or participates. In the circumstances, there is no objection to the proposed amendment."

Approved unanimously.

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

4/5/48

-7-

"Two Federal Reserve Banks have advised the Board of the receipt of a wire from the Treasury asking them to extend the facilities of their Banks to the committees in their districts for advice on, and payment of certain expenses during the forthcoming security loan drive. The Board understands that these operational facilities will be similar to those heretofore rendered although on a substantially smaller scale and has advised the Banks making inquiry that it sees no reason why the Federal Reserve Banks should not cooperate with the Treasury in this respect."

Approved unanimously.

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

"This refers to your letter of March 29, 1948, in which you state the replacing the roof over the members' court is regarded as of an emergency character and should not be further delayed. It is proposed, if the Board has no objection, to accept the lowest bid, \$21,404.50, received by the architects for this work and, in view of the size of the project, not to obtain a performance bond covering it. It is noted that replacement of the roof was not contemplated in 1945 when the architects prepared the specifications for remodeling the present building and constructing an extension and hence is not included in the original specifications except in so far as the painting and electrical work are concerned. The cost of such work represents \$2,139 and \$3,539, respectively, of the contractor's total bid.

"The Board will interpose no objection to your proceeding with the project to replace the roof over the members' court at a total cost of \$23,652.98 including engineers' and architects' fees.

Approved unanimously.

Letter prepared for Chairman Eccles' signature to Mr. Sidney A. Mitchell, Executive Director, Commission on the Organization of the Executive Branch of the Government, reading as follows:

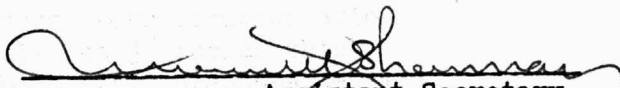
4/5/48

- 8 -

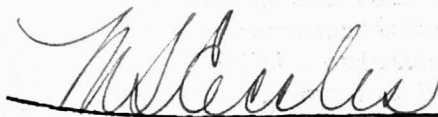
"This will acknowledge receipt of your letter of April 5 confirming the oral request made on behalf of the Commission last month for the assignment of approximately 5,000 square feet of office space in the Federal Reserve Building for the Commission's use until January 10, 1949. In accordance with your understanding, 1,900 square feet of space is being made available immediately. Mr. Luce of your office this afternoon requested that a partition be erected in Room 2267 and this work will be expedited so that the members of your staff may move in on the morning of Wednesday, April 7. As representatives of your office have been previously advised, the approximately 3,000 square feet of additional space that you require is now occupied by the Appeal Board of the Office of Contract Settlement. However, the Board has requested that Office to vacate such space not later than May 1, 1948.

"The Board is glad of the opportunity to facilitate the work of the Commission by assigning space for its use in the Federal Reserve Building."

Approved unanimously.


Assistant Secretary.

Approved:


Chairman pro tem.