

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 27, 1948. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Evans

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Brown, Assistant Director of the Division of Research and Statistics
Mr. Solomon, Assistant Counsel

During a general discussion of the recommendations to be submitted by the President today to the special session of Congress which convened yesterday, Chairman McCabe stated that the anti-inflation bill to be submitted by the Administration would recommend, among other things, that authority be given to the Board of Governors to increase reserve requirements of member banks by 10 percentage points on demand deposits and 4 percentage points on time deposits.

Mr. Eccles stated that if this authority were granted and were exercised by the Board to any extent it probably would result in withdrawals of small banks from membership and deter existing nonmember banks from joining the System. For that reason he would be opposed to the passage of legislation which did not

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authorize the Board to increase reserve requirements of all commercial banks as distinguished from member banks only. This point was discussed but no conclusions were reached.

Chairman McCabe stated that Mr. Thomas was preparing a draft of memorandum which might be used in the event the Board was asked to testify on the bank reserve proposal and that the draft could be considered at a meeting of the Board on Friday, July 30, 1948.

Mr. Evans stated that the staff was also preparing a draft of statement that might be used if the Board was asked to testify on legislation relating to consumer credit regulation and that it was his view that the Board should take the position that any authority granted by such legislation should continue for at least two years because of the fact that the terms of instalment payments prescribed in the regulation which would be issued by the Board under the authority would extend beyond one year and, therefore, it would not be possible to enforce the regulation if the authority existed for a period of only 12 months.

Mr. Vest stated that the consumer credit section of the bill to be proposed was in the same form as the bill which passed the Senate on December 17, 1947, except that the authority would be continued in effect until June 30, 1950.

Reference was then made to a memorandum prepared by Mr. Vest under date of July 8, 1948, containing suggestions as to

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possible noncontroversial legislation for proposal to Congress. A copy of the memorandum, which was prepared in accordance with the discussion at the meeting of the Board on January 30, 1948, had been sent to each member of the Board for consideration before this meeting. Mr. Vest stated that, in view of the fact that none of the proposals contained in the memorandum were of an urgent or important character, he felt that it would be difficult to obtain their enactment by Congress and that, accordingly, he questioned whether there was anything to be gained by submitting them. He made it clear that the list had been prepared prior to the calling of the special session of Congress and that introduction of legislation of this nature had not been contemplated at the special session.

In this connection reference was also made to a memorandum dated July 1, 1948, prepared by Mr. Baumann, Assistant Counsel, with respect to proposed legislation which would eliminate the statutory capital requirements for the establishment of out-of-town branches by State member banks and for the admission of State banks to membership (except that a minimum of \$50,000 would be required for the admission of newly organized banks and \$25,000 would be required for other banks). The memorandum suggested that if the Board wished to consult the other Federal bank supervisory agencies

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concerning the legislation, it would be desirable to do so at an early date in order to be prepared to submit the proposed legislation to Congress early in the next session.

Chairman McCabe suggested that inasmuch as it was not proposed to introduce any of the legislation referred to in the memorandum prepared by Mr. Vest and Mr. Baumann until after January 1, 1949, consideration of the matter be deferred until a meeting when more members of the Board were present.

It was agreed unanimously that the matter would be placed on the docket for consideration at a meeting in September or October.

Following a reference to the consideration given at the meeting of the Board on July 23, 1948, to the question of a further increase in reserve requirements of member banks in central reserve cities, Mr. Eccles expressed the opinion that a decision on this matter should be reached promptly so that, if it were decided to increase such requirements, the increase could be made effective some time before the announcement of the September Treasury financing.

Following a brief discussion of the matter, it was agreed unanimously that the question of action with respect to reserve requirements of member banks in central reserve cities would be considered at a meeting of the Board on Friday, August 6, 1948. In taking this

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action it was understood that the Secretary would send a notice to the members of the Board who were not present at this meeting informing them that the matter was to be considered at that time.

At this point Messrs. Riefler, Thomas, Vest, Brown, and Solomon withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Letter to Mr. Dearmont, Federal Reserve Agent of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of July 23, 1948, the Board of Governors approves the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Effective September 1, 1948:		
Edward H. Hoppe	Alternate Assistant Federal Reserve Agent	\$3,780
Effective October 1, 1948:		
Frank S. Parker	Assistant Federal Reserve Agent	4,380"

Approved unanimously.

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

"Reference is made to your letter of July 19, 1948, submitting the request of The Cleveland Trust Company, Cleveland, Ohio, for permission to establish a branch in University Heights, Ohio.

"It is understood that approval of the appropriate State authorities has been obtained and in view of your recommendation, the Board of Governors

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"approves the establishment and operation of a branch in University Heights, Ohio, by The Cleveland Trust Company, Cleveland, Ohio, provided such branch is established within six months of the date of this letter and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to establish the branch."

Approved unanimously.

Letter to the "First National Bank at Lubbock", Lubbock, Texas, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

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

Letter to Mr. James P. Orchard, Vice President and Treasurer, Bowser, Inc., Fort Wayne 2, Indiana, reading as follows:

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"This is in reply to your letter of July 15, 1948, and to your letter of July 14 addressed to Chairman McCabe, regarding the desirability of reinstating the V-loan procedure under which the Armed Services, through the agency of the Federal Reserve Banks, assisted in providing financing during World War II to contractors engaged in war production. You suggest that this program be revived in order to provide financial assistance to manufacturers like yourself engaged in the performance of contracts in connection with the Government's industrial preparedness program.

"As you probably know, the V-loan program was carried on under authority of the President's Executive Order No. 9112 of March 26, 1942, which was issued pursuant to certain provisions of the First War Powers Act of December 18, 1941. However, for all practical purposes, the V-loan program ceased to function soon after V-J Day and no guarantee under that program has been issued by any of the Armed Services since May 1946. The First War Powers Act, as well as the Executive Order, related in terms to the 'prosecution of the war' and whether or not this statute may be regarded as authority for the issuance of a new Executive Order by the President to authorize guarantees of loans to finance Government contracts is a question which would have to be determined by the President in consultation with other agencies of the Government.

"We appreciate your remarks as to the efficacy of the V-loan program in rendering assistance to industry during World War II, and we are glad to have the benefit of the views expressed in your letter as to the present need for providing financing to business enterprises. The Board will, of course, have this problem in mind in connection with any discussions which it may have with other agencies of the Government in connection with this or related matters.

"In the meantime, your attention is called to the fact that the various Federal Reserve Banks presently have authority under section 13b of the Federal Reserve Act to assist in providing working capital to industrial or commercial businesses, either by direct advances or by commitments to banks with respect to advances made by them to such businesses. It is suggested, therefore,

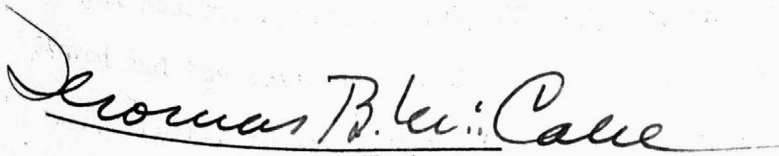
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"that in this connection you may wish to communicate with the Federal Reserve Bank of Chicago which serves the district in which you are located."

Approved unanimously.


Secretary.

Approved:


Chairman.