

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 16, 1948.

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

Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 15, 1948, were approved unanimously.

Memorandum dated September 13, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Mr. Duncan McC. Holthausen, an economist in that Division, be accepted to be effective, in accordance with his request, at the close of business on September 17, 1948, and that a lump sum payment be made for annual leave remaining to his credit as of that date.

Approved unanimously.

Memorandum dated September 10, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Helena C. Knouse be appointed as a clerk-stenographer in that Division on a temporary indefinite basis with basic salary at the rate of \$2,724 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 Miss Knouse would become a member of the

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Federal Reserve retirement system.

Approved unanimously.

Memorandum dated September 15, 1948, from Mr. Van Fossen, Assistant Director of the Division of Bank Operations, recommending that Mrs. Dorothy H. Ford, a clerk in that Division who has been on maternity leave since May 3, 1948, be granted additional leave without pay for the period September 20 to October 31, 1948, inclusive with the understanding that if she can return to duty at an earlier date an appropriate recommendation will be made as to her reemployment.

Approved unanimously.

Letter to the board of directors of the "Citizens Trust Company", Atlanta, Georgia, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System, and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta:

3. At the time of admission to membership, such bank shall have a paid-up and unimpaired capital of not less than \$200,000."

Approved unanimously, together with a letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the Citizens Trust Company, Atlanta, Georgia, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of

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"which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Georgia for his information.

"Since the losses estimated in the report of examination for membership have since been charged off, the usual condition of membership requiring the elimination of losses has not been prescribed.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts listed on page 16 (1) of the report, and that you will also follow the matter of installation of adequate records in its trust department.

"It is noted that steps have been taken to have the bank's charter, which expired in 1941, revived. The resolution of the board of directors accepting the conditions of membership should not be adopted until after the bank's charter is revived and your Counsel has executed the certificate required by the application. In order to complete our records, please forward a copy of the Counsel's certificate."

Letter to the board of directors of "The Commercial Bank, Waynoka, Oklahoma", Waynoka, Oklahoma, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System, and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

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

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

"A printers' proof of the new Registration Statement for use in connection with section 2(b) of Regulation W is enclosed. Photo-offset negatives were air mailed to you yesterday. The new form (F.R. 563-b) is designed for a sheet six inches by nine

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"inches, the same size as Regulation W. Space has been left at the top of the form for inserting the name of the Federal Reserve Bank if desired. You may wish to use the attached material in the transmittal letter sending blank forms to your mailing list. The Board will write to you at a later date regarding the data to be compiled from the Registration Statements.

"Also enclosed is the text of a Registration Certificate which the Board has approved. For the sake of uniformity the Board would like all Reserve Banks to have the Registration Certificate reproduced on a sheet six inches by nine inches. It is suggested that each certificate issued be dated and numbered consecutively and that the letter of the alphabet which identifies the Federal Reserve District be used as a prefix to the number (for example, Boston would prefix its number series with "A"). The seal of the issuing bank, shadow printed in the center of the certificate, might improve its appearance and the Board would have no objection to its use if any Reserve Bank wishes to do so."

Approved unanimously, with the understanding that the letter to San Francisco would contain a footnote saying: "A printers' proof, rather than an off-set negative, was air mailed to San Francisco yesterday."

Telegram to Mr. Heath, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"Re your letter September 9 regarding General Finance forms under Regulation W. Statement of transaction under present regulation is a record keeping requirement and so long as each item of information specified is in a written form and somewhere in either the instrument or a separate record or records the requirement would be satisfied. We recognize enforcement problem but feel this is an amendment question."

Approved unanimously.

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

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"The Board's Regulation W relating to Consumer Instalment Credit which was issued under the authority of Public Law 905, enacted at the recent special session of Congress, becomes effective September 20, 1948. Copies of the Regulation and of the Board's press release dated August 19, 1948, regarding the Regulation are enclosed.

"It seems clear that effective and uniform enforcement of the Regulation throughout the country is essential to accomplish the purposes of the law and in fairness to the consuming public and to those subject to the Regulation.

"To that end the Board seeks the cooperation of the Federal Deposit Insurance Corporation in the administration of the Regulation with respect to the banks under its supervision. Governor Evans has reported to the Board his recent discussion with Mr. Cook and members of your staff on this matter, and the Board appreciates the offer of cooperation then made.

"The Board would like to have the cooperation of your Corporation along the following lines:

- "1. Your examiners to take appropriate steps in the examination of institutions under your supervision to promote understanding of, and compliance with, Regulation W, and to determine whether violations of the Regulation exist either as to credits originated by the institution or credits acquired by it from others.
- "2. If violations by institutions under your supervision are discovered which in the opinion of representatives of your Corporation are inadvertent, your representatives to take steps to obtain correction of the violations along the lines which it is contemplated will be taken by the Federal Reserve Banks in similar circumstances under section II-A of the enclosed Outline of Enforcement Program; and
- "3. If violations by institutions under your supervision are discovered which in the opinion of representatives of your Corporation are apparently willful and steps should be taken to determine whether penalties should be prescribed, your representatives to report the facts in the case to the Federal Reserve Bank of the district in which the apparently willful violation occurs or to the Board of Governors.

"In carrying out the above program, we would like to have representatives of your Corporation and appropriate representatives

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"at the various Federal Reserve Banks maintain close informal contacts in order that the Federal Reserve Bank representatives may be of all possible assistance to your staff in your cooperation with us in this matter. Needless to say, we contemplate the same close and informal relations between our staffs here in Washington.

"The procedure regarding treatment of violations of the Regulation as stated in the attached Outline of the Enforcement Program, which has been prepared for the Federal Reserve Banks, has been cleared with the Department of Justice.

"We have received assurances from the Comptroller of the Currency of their cooperation along the lines suggested so far as National banks and other organizations under his supervision are concerned. We also expect to receive the continuing cooperation of the National Association of Supervisors of State Banks and of other agencies with responsibilities for supervision of concerns coming within the scope of the Regulation."

"OUTLINE OF ENFORCEMENT PROGRAM
UNDER REGULATION W

"I. Investigation Procedure

"A. Vendors and Sales Finance Companies:

1. Investigations of vendors and sales finance companies will be conducted by representatives of the Federal Reserve Banks.
2. As a general rule, each investigation will include a survey of procedures affecting Regulation W compliance, a spot-check of a representative number of recent transactions, and an examination of indexes of general conformity--such as collection ratios and records of delinquencies.
3. Each investigation will be covered by a written report in such form as will enable the Federal Reserve Bank to obtain information needed for the required summary report to the Board and will provide sufficient information for subsequent use in case of continued violation. Special attention will be given to reports of reinvestigations in which disciplinary action may subsequently be required.
4. Each Federal Reserve Bank will be responsible for the investigation of branches in its district of Registrants with head offices elsewhere, but the Federal Reserve Bank where the head office is located will be informed of any developments which may lead to disciplinary action.

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"B. Lenders:

1. It is the general plan of the enforcement program that investigations of the various classes of lenders will be conducted by the following agencies:
 - a. National banks--National bank examiners
 - b. State member banks*--Federal Reserve Bank examiners
 - c. Non-member insured banks*--F.D.I.C. bank examiners
 - d. Non-insured banks*--State bank examiners
 - e. Industrial loan companies--State supervisors
 - f. State-licensed small loan companies--State supervisors
 - g. Federal Credit unions--Federal Credit Union examiners
 - h. Other credit unions--State supervisors
 - i. Federal savings and loan associations--Home Loan Bank Board examiners
 - j. Insured savings and loan associations--State supervisors
 - k. Non-insured savings and loan associations--State supervisors
 - l. Federal land banks and associated institutions--FCA examiners
 - m. Lenders not specified above--Federal Reserve Bank investigators
2. The Board will maintain contact with the head offices of the Federal agencies involved but the Federal Reserve Banks will maintain contact with the local offices of these Federal agencies in their districts in the interest of continuing cooperation in the program. To the same end the Federal Reserve Banks will also maintain contact with the State agencies referred to in section I-B-1.
3. Investigations of lenders will be conducted by the various agencies in the course of their regular examinations of the subject lending institutions according to such procedure as they deem appropriate. It is expected that the procedure will include a discussion with lending officers to ascertain their familiarity with the regulation and a spot-check of loans.

"II. Treatment of Violators"A. When discovered by a Federal Reserve Bank:

* Including industrial banks.

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- "1. Inadvertent violators:
 - a. The Federal Reserve Bank, either through the investigator in the field or through communication from the Bank's office, will take appropriate steps to bring about, if practicable under all the circumstances, a correction of any contract found to have violated the regulation.
 - b. The Federal Reserve Bank will undertake to obtain, either orally or in writing as may appear appropriate in the particular case, assurance of future compliance.
 - c. Reinvestigations will be scheduled where warranted by the circumstances.
2. Apparently willful violators:
 - a. When a violator is first classified as apparently willful, the Federal Reserve Bank will ordinarily hold a disciplinary conference with the violator. The conference will ordinarily be at one of the offices of the Federal Reserve Bank and be attended by counsel for the Federal Reserve Bank as well as counsel for the Registrant if he wishes to be so represented. A reinvestigation will be scheduled for an early date.
 - b. If on any reinvestigation after such a disciplinary conference further violations are discovered, the Federal Reserve Bank will make the determination as to whether to hold an additional disciplinary conference or refer the case to the Board for action.
 - c. If the case is referred to the Board for action, the Federal Reserve Bank will prepare and send to the Board a full report of the history of the case with copies of all investigation reports and supporting documents. The Federal Reserve Bank will ordinarily make a recommendation to the Board as to the action to be taken.
 - d. In every case in which a second disciplinary conference with the Registrant has been held but the case has not been referred to the Board for action, the Federal Reserve Bank will send to the Board, as soon as possible after the conclusion of the conference, a full report of the history of the case with copies of all investigation reports and supporting documents.

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- "e. If the Registrant has offices in more than one Federal Reserve District, the Federal Reserve Bank where the head office is located will be kept informed and will be in charge of any disciplinary action.
- "B. When discovered by a cooperating supervisory agency:
1. Inadvertent violators:
 - a. The cooperating agency will be expected to take steps along the lines to be taken in similar cases by the Federal Reserve Banks under section II-A-1.
 2. Apparently willful violators:
 - a. The cooperating agency will be expected to report the facts in the case to the Federal Reserve Bank of the district in which the violation occurred or to the Board of Governors.
 - b. The Federal Reserve Bank will determine what steps should be taken in the particular case along the lines to be taken in similar cases where the violation was discovered by the Federal Reserve Bank, as outlined in section II-A-2.
- "C. When discovered by the Department of Justice:
1. Apparent violations will be reported to the Federal Reserve Bank in the district where the violation occurs.
 2. The Federal Reserve Bank will handle the case along the lines taken in similar cases when discovered by the Federal Reserve Bank."

Approved unanimously, together
with a similar letter to Comptroller
of the Currency Delano.

Letter to Mr. Richard Rapport, President, National Association of Supervisors of State Banks, 241 State Office Building, Hartford 15, Connecticut, reading as follows:

"The Board's Regulation W relating to Consumer Instalment Credit which was issued under the authority of Public Law 905, enacted at the recent special session of Congress, becomes effective September 20, 1948. Copies of the Regulation and of the Board's press release dated August 19, 1948, regarding the Regulation are enclosed.

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"It seems clear that effective and uniform enforcement of the Regulation throughout the country is essential to accomplish the purposes of the law and in fairness to the consuming public and to those subject to the Regulation.

"To that end and in order to avoid duplication of investigations, the Board is seeking the cooperation of the State and Federal banking agencies in the enforcement program, an outline of which is attached. The Board has received assurances of cooperation from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and other Federal agencies having supervision of lenders subject to the Regulation.

"Under this program the Board would like to have the cooperation of the various State bank supervisors with respect to non-insured banks and other institutions under their supervision as suggested in section I-B-1 of the attached outline. The Board suggests that this cooperation be along the following lines:

- "1. The State examiners to take appropriate steps in their examinations to promote understanding of, and compliance with, Regulation W, and to determine whether violations of the Regulation exist either as to credits originated by the institution or credits acquired by it from others.
- "2. If violations by institutions under State supervision are discovered, which in the opinion of representatives of the State supervisor are inadvertent, State representatives to take steps to obtain correction of the violations along the lines which it is contemplated will be taken by the Federal Reserve Banks in similar circumstances under section II-A of the enclosed Outline of Enforcement Program; and
- "3. If violations by institutions under State supervision are discovered, which in the opinion of representatives of the State supervisor are apparently willful and steps should be taken to determine whether penalties should be prescribed, State representatives to report the facts in the case to the Federal Reserve Bank of the district in which the apparently willful violation occurs or to the Board of Governors.

"While the procedure referred to above relates particularly to non-insured banks and other credit agencies not also under Federal supervision, the Board would appreciate it if similar procedures would be followed in the case of any violations discovered in the course of independent examinations by State

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"examiners of insured member and non-member State banks.

"The procedure regarding treatment of violations of the Regulation as stated in the attached Outline of the Enforcement Program, which has been prepared for the Federal Reserve Banks, has been cleared with the Department of Justice.

"We shall appreciate it if you will bring this request to the attention of the National Association of Supervisors of State Banks. In carrying out the program, we would like to have representatives of the various State bank supervisors and appropriate representatives at the various Federal Reserve Banks maintain close informal contacts in order that the Federal Reserve Bank representatives may be of all possible assistance to the State bank supervisors in their cooperation with us in this matter.

"Needless to say, the Board desires to maintain close cooperation with the National Association of Supervisors of State Banks and will welcome any opportunities, formal or informal, to further our mutual interest in promoting and maintaining sound banking and credit conditions."

Approved unanimously.

Letter to the Honorable Wingate Lucas, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of September 2, 1948, with which you enclosed a letter from Mr. J. W. Butcher, Secretary and Treasurer, Oliver H. Ross Piano Company, 316 Houston Street, Fort Worth, Texas, in which Mr. Butcher expressed regret that pianos had not been included under Regulation W and in which he inquired why they had been omitted and whether they might be included at some future date.

"The Board has received a number of communications from piano manufacturers and dealers concerning the possible inclusion of pianos, and the trade is quite divided on the subject. The reason why they have been omitted is that the installment credit generated in their distribution is not of large magnitude and at the present time it would not appear that the application of Regulation W would contribute enough in the way of restraint on inflation to justify the administrative work which would be required. While there are a few other items on the list about which the same thing could possibly be said if they were regarded as separate classes of goods, these were included because they are in a group of closely related items.

"As requested, we are returning Mr. Butcher's letter."

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Approved unanimously.

Letter to Mr. Davis, Chairman of the Conference of Presidents,
Federal Reserve Bank of St. Louis, reading as follows:


"In connection with the increase in reserve requirements of member banks effective September 16 and September 24 of this month, there has been some discussion of its possible effect on membership in the Federal Reserve System, either as a deterrent to obtaining new members or as a factor which might cause present members to withdraw. The Board would appreciate your having included on the agenda for the forthcoming Presidents' Conference a discussion of this question."

Approved unanimously.

Telegram to Mr. Carstarphen, Secretary and General Counsel of
the Federal Reserve Bank of St. Louis, reading as follows:

"Relet September 10, Board will interpose no objection to expenditure of not to exceed \$75,765 on basis outlined in your letter for conversion of generating equipment authorized in Board's letter of July 22, 1948."

Approved unanimously.


Assistant Secretary.

Approved:


Chairman pro tem.