

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 29, 1948. The Board met in the Special Library at 11:25 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
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
Mr. Riefler, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel

Mr. Szymczak was not able to attend this meeting, the reason being that, while he would have preferred a morning meeting and could have attended either a morning or afternoon meeting, when it was decided to hold a meeting at 3:30 p.m. he left to keep an earlier appointment at the International Bank for Reconstruction and Development. While completing that appointment, he was advised that the hour of the meeting had been changed to 11:15 a.m., but it was not then feasible for him to return to the meeting at that time.

Reference was made to a memorandum from Messrs. Morrill, Riefler, and Thomas dated November 29, 1948, presenting a draft of letter and memorandum to be sent to the President in response to

11/29/48

-2-

his request of November 6, 1948, transmitting material for use in the State of the Union message and the Economic Report.

The drafts of letter and of memorandum were read and discussed, and it was agreed unanimously that they should be revised in the light of the discussion and submitted to the Board again for further consideration.

Chairman McCabe presented a draft of letter to the Chairmen of the Federal Reserve Banks asking that they send the Board information based on the opinions of the directors of the Federal Reserve Banks and branches with respect to the current and prospective economic situation.

Following a discussion, it was agreed unanimously that a letter prepared for Chairman McCabe's signature should be transmitted in the following form:

"We are wondering whether you would be willing to share with the Board and its staff the expression of opinion on the business situation by the directors of your Bank at their next regular meeting. Statistical material available from various sources gives a comprehensive picture of what has happened and some indication of the future but, in judging what is going to happen in the economic situation, a great deal depends on what businessmen and others are feeling and thinking. It is particularly in this realm that we would like to get opinions from the directors of your Bank. These might be obtained by asking all of them to discuss a common set of questions, after which you would send us digests of the discussions. The following questions have occurred to us as especially appropriate for general discussion at this time:

1. In the case of the company or companies with which you are most familiar, has there been any substantial change in the plans for investment in new facilities (plant or equipment) since October 31, 1948? Do you feel

11/29/48

-3-

"that expenditures of this type in 1949 will run ahead of or behind expenditures in 1948?"

2. Do you feel that there is a noticeable effort on the part of most companies with which you are familiar to increase or decrease commitments to purchase raw materials and other supplies?
3. What is the inventory policy of concerns of which you have knowledge? Are they planning to (a) increase, (b) decrease, or (c) hold inventories constant? Do you know of cases where inventories are increasing where the increase is involuntary, i.e. due to unexpected falling off in sales?
4. Are you aware of any pressure in your district as yet for a fourth round of wage increases? Do you feel that such pressure is imminent, even if the Bureau of Labor Statistics' cost of living index remains constant or recedes slightly?
5. Do you anticipate any increase in prices by the companies with which you are familiar within the next six months even if there is not a further rise in wages?
6. Are there any elements in the economic situation today which you regard as especially significant or critical from the point of view of business?
7. What would you say are the major 'question marks' in the businessmen's minds today in making critical decisions related to expansion or contraction of their activities?

"You will appreciate that we do not want this request to be a burden. We do feel, however, that the broad experience and background of the directors of the Reserve Banks is an asset of the System which should be used more effectively in working out our policy problems.

"For your convenience, if you should care to use them, extra copies of this letter are enclosed for distribution to your directors."

At this point Messrs. Riefler, Smead, Thomas, and Vest withdrew from the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

11/29/48

-4-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 24, 1948, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 26, 1948, were approved and the actions recorded therein were ratified unanimously.

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

"Enclosed herewith is a copy of a letter dated November 9, 1948, addressed to the Board's Division of Examinations by Mr. M. E. Reeve, Vice President and Trust Officer, City National Bank of Philadelphia, Philadelphia, Pennsylvania, relating to a proposal being considered by the Committee on Smaller Trust Departments of the Pennsylvania Bankers Association, under which a common trust fund would be set up by one of the larger trust companies in Pennsylvania for the exclusive purpose of selling participations to trusts in small trust departments throughout the State.

"Mr. Reeve requests advice as to whether the Board would approve this proposal but, since he states that the proposal still is in the 'idea stage', it appears more appropriate at this time merely to offer certain comments for his consideration.

"A fund of the kind described by Mr. Reeve would not be a fund maintained by a bank for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as trustee, executor, administrator, or guardian; and, therefore, it would not be a 'common trust fund' as that term is defined in the second paragraph of section 17(a) of the Board's Regulation F. Likewise, it appears that, regardless of the Board's regulations, such a fund would not be a 'common trust fund' as that term is defined for the purposes of exemption from Federal taxation in section 169 of the Internal Revenue Code, which reads in part as follows:

'(a) DEFINITIONS.--The term "common trust fund" means a fund maintained by a bank (as defined in section 104)--

'(1) exclusively for the collective investment and reinvestment of moneys contributed

"thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; and

'(2) in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System pertaining to the collective investment of trust funds by national banks.'

"The proposed fund would be an investment trust operated by a bank for the purpose of issuing and selling shares or participations to trusts administered by other banks; and there would be considerable similarity between it and an investment trust in which shares were sold to the general public. The proposal immediately raises questions as to whether the operation of such a fund would not violate the statutory restrictions upon the issuance and sale of securities by banks. Apart from the statutory restrictions, the proposal also suggests practical objections which are inherent in the mingling of banking and securities business. This would be particularly true if, as can be easily visualized, a number of banks operated funds of this nature and actively competed in the sale of participations. In this connection, it is pertinent to note the restrictions contained in Regulation F which are designed to prevent the sale of participations in common trust funds to the public and to guard against the use of such a fund for any purpose other than as a mechanism to facilitate the investment of moneys of bona fide trusts administered by the bank operating the fund.

"It will be appreciated if you will advise Mr. Reeve in the light of the foregoing."

Approved unanimously.

Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of November 16, 1948, with enclosures, regarding the proposed establishment of a branch by the Continental State Bank, Boise, Idaho, in the area known as the Whitney Bench, a part of which has recently been annexed to the City of Boise.

"It is understood that the site of the proposed branch is now within the limits of the City of Boise and, therefore, approval of the Board of Governors is not required for its establishment."

Approved unanimously.

11/29/48

-6-

Telegram to Mr. Creighton, Federal Reserve Agent of the Federal Reserve Bank of Boston, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to "The National Shawmut Bank of Boston", Boston, Massachusetts, entitling such organization to vote the stock which it owns or controls of the "Somerville National Bank", Somerville, Massachusetts, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to thirty days from the date of the telegram unless an extension of time is granted by the Board. The conditions contained in the telegram upon which the permit was authorized were as follows:

"1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), except that paragraph numbered 3 shall be modified in manner stated in paragraph numbered (3) of S-964; and

"2. simultaneously with issuance of general voting permit authorized herein, there shall be issued to Shawmut Association general voting permit authorized in Board's telegram of this date."

Approved unanimously.

Telegram to Mr. Creighton, Federal Reserve Agent of the Federal Reserve Bank of Boston, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal

11/29/48

-7-

Reserve System authorizes the issuance of a general voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Shawmut Association", Boston, Massachusetts, entitling such organization to vote the stock which it owns or controls of the "Somerville National Bank", Somerville, Massachusetts, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to thirty days from the date of the telegram unless an extension of time is granted by the Board. The conditions contained in the telegram upon which the permit was authorized were as follows:

- "1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190); and
- "2. simultaneously with issuance of general voting permit authorized herein, there shall be issued to The National Shawmut Bank of Boston general voting permit authorized in Board's telegram of this date."

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

"With his letter dated October 3, 1947, Mr. Willett enclosed a copy of a letter dated September 19, 1947, addressed to him by Mr. Edward S. Stimpson, 185 Albany Street, Cambridge 39, Massachusetts, objecting to the granting of a voting permit to Shawmut Association, Boston, Massachusetts, authorizing it to vote the stock which it owns or controls of Somerville National Bank, Somerville, Massachusetts.

"In its telegram of this date to Mr. Creighton, the Board has authorized the issuance of a general voting permit to Shawmut Association covering the bank in question.

11/29/48

-3-

"When the permit has been issued, it will be appreciated if you will so advise Mr. Stimpson, and, with reference to his letter, advise him further as follows:

"Before granting a general voting permit to Shawmut Association authorizing it to vote the stock which it owns or controls of Somerville National Bank, the Board carefully considered Mr. Stimpson's letter which objected to the granting of the permit on the ground that there was an unwarranted concentration of banking in Middlesex County, in which Somerville is located. As Mr. Stimpson stated, there are two bank holding companies, Baystate Corporation and Shawmut Association, which control banks in Middlesex County. The two organizations are active competitors in the banking field. The operations of the Baystate bank group in Middlesex County are much greater than those of the Shawmut group, both in number of banking offices and in aggregate banking resources. In the circumstances, the addition of Somerville National Bank to the Shawmut group can not be said to have tended to create a monopoly in banking in Middlesex County. Moreover, there is no indication that the acquisition of control of Somerville National Bank by Shawmut Association tended to substantially lessen competition between that bank and other banks in Middlesex County; and it would appear that if the change in the control of Somerville National Bank had any effect on competition in Somerville, the effect probably would be to increase competition. Mr. Stimpson emphasized the fact that the two bank holding companies together control banks which hold a majority of the demand deposits in Middlesex County. However, this fact alone would not appear to be an appropriate basis for refusing to grant a voting permit to one of the holding companies and, particularly, to the one which controls the smaller bank group in the county. After consideration of all of the facts of this case, the Board could not conclude that the public interest required that the voting permit be withheld."

Letter to Mr. Williams, Assistant Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"This is in reply to your letter of November 17, relative to the application of Regulation W to the sale of a new stove designed for the use of bottled gas to replace an old stove previously converted to the use of bottled gas by the same dealer. The question is whether part of the funds paid to convert the old stove may be treated as part of the down payment on the subsequent purchase of the new stove.

11/29/48

-9-

"On the basis of the facts in your letter, the Board agrees with your conclusion that the conversion of the old stove is a complete transaction in itself, and the Registrant may not subsequently apply credit or rebate representing a part of the charge to the first transaction as part of the cash down payment on the new stove. There would be no objection, of course, to the Registrant permitting such discount or credit on the purchase price of the new stove and calculating the cash down payment on the net price, as provided in Part 5 of the Supplement to Regulation W."

Approved unanimously.

Letter to Mr. Dwight L. Chapman, President, Board of Directors, War Department Employees Credit Union, P. O. Box 3829, San Juan, Puerto Rico, reading as follows:

"Your registration statement dated November 9, filed on Form F. R. 563-b in connection with Regulation W, has been forwarded to us by the Federal Reserve Bank of Atlanta.

"Section 8(f) of Regulation W provides that it shall not apply to credit extended outside the continental United States. Accordingly, we are returning your registration statement to you."

Approved unanimously.

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

"Your letter November 18. Board approves renewal of the \$100,000,000 of gold loans to Banque de France maturing from December 22, 1948, to February 23, 1949, on the same terms and conditions as now apply which were set forth in your letter to the Board of November 21, 1947, but such renewal to run either for three months from the maturity of each loan or for a period from such maturities to May 23, 1949, as set forth in your letter of November 18. The Board notes in this connection that you plan to advise Banque de France that the granting of these renewals would be contingent upon acceptance by the Banque de France of one of two alternative repayment schedules providing for repayment by the Banque de France at the time of each

11/29/48

-10-

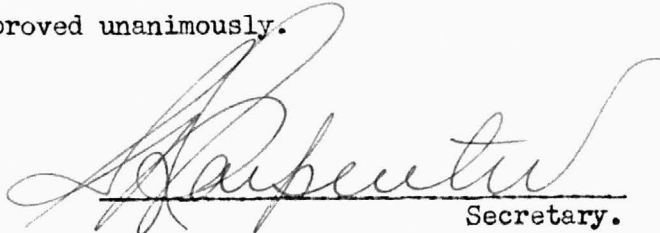
"future renewal of at least 25 per cent of the loans now outstanding, with the understanding that (1) Banque de France request such renewal in each case and (2) if subsequent developments in the international situation make resubmission to your directors desirable the matter will also be resubmitted to the Board of Governors.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

Memorandum dated November 26, 1948, from Mr. Hooff, Assistant Counsel, recommending that, in addition to material previously submitted, there be published in the law department of the December issue of the Federal Reserve Bulletin the recent amendments to Regulation J, together with an introductory statement in the form attached to the memorandum.

Approved unanimously.


Secretary.

Approved:


Chairman.