A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors in Washington on Wednesday, December 1, 1948, at 10:40 a.m.

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

Mr. Carpenter, Secretary

Messrs. Williams, Gidney, Leach, McLarin, C. S. Young, Davis, Peyton, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively, and Messrs. Willett and Rounds, First Vice Presidents of the Federal Reserve Banks of Boston and New York, respectively.

Mr. Erickson, President-elect of the Federal Reserve Bank of Boston

Mr. Charles G. Young, Jr., Secretary of the Presidents' Conference

Mr. Eccles stated that Chairman McCabe had an important outside appointment and would join the meeting later.

A memorandum covering questions which the Presidents wished to discuss at this joint meeting had been submitted and distributed to the members of the Board prior to the meeting. The statements of the Presidents and the discussion with respect to each of the matters considered were as follows:

1. Uniform circular regarding collection of cash items. The Conference gave consideration to the report of the Committee on Collections to the Committee on Operations, dated November 12, 1948 (as supplemented by the letter of November 22, 1948, from Mr. Willis, Chairman of the Committee on Collections to Mr. Leach, Chairman of the Committee on Operations), and to the uniform circular (as amended by Mr. Willis' letter) regarding "Collection of Cash Items", submitted as an Appendix to the report. The uniform circular thus submitted incorporates the changes in the uniform paragraphs required by the amendments to Regulation J of which the Board has published notice, as well as certain other changes explained in the report, and includes five new uniform paragraphs. In its report, the Committee on Collections has recommended that the circular be adopted and issued by all Federal Reserve Banks to become effective simultaneously with the effective date of the amendment of Regulation J. The Conference approved these recommendations and the uniform circular (as amended by Mr. Willis' letter), except that one of the Presidents objected to the inclusion of the paragraph headed "Check Routing Symbol" as a uniform paragraph, and it was agreed by the Conference that each Reserve Bank should have the option of including or excluding this paragraph in the circular when it is issued and, in the event the paragraph is included, of modifying the language of the paragraph as the Reserve Bank concerned might deem appropriate or desirable. While the Presidents do not believe it necessary to discuss this subject with the Board, they did believe it advisable to report the action of the Conference, in view of the short time remaining prior to the effective date of the amendments to Regulation J.

Mr. Eccles said that the Board approved the changes in the uniform paragraphs of the check collection circulars of the Federal Reserve Banks as set forth in the above statement of the Presidents.

2. Legislative program to be recommended to the President. Reference was made to the Board's telegram of November 10, 1948, to the Chairman of each of the Reserve Banks, a copy of which had also been sent to each of the Presidents, requesting comments or suggestions as to proposed legislation which might be submitted by the Board for inclusion in the President's "State of the Union" message and the Economic Report to be presented to the Congress in January 1949. After some discussion, the members of the Conference expressed a desire to discuss this subject with the Board, in order that they might be more fully informed of the legislative program which the Board proposes to submit.

Mr. Davis stated that the Presidents' Conference had not given detailed consideration to the replies of the Directors and Presidents of the Federal Reserve Banks to the Board's wire of November 10, 1948, but would like to know what proposals the Board would submit.

Mr. Eccles stated that the Board appreciated the replies to the telegram of November 10, 1948. At the request of the Board, Mr. Carpenter presented a brief summary of the replies and Mr. Eccles stated that, if desired, the Board would be glad to send to the Federal Reserve Banks copies of a digest of the replies. All of the Presidents indicated that they would be glad to have such a digest.

Mr. Eccles then called on the Presidents for any statements that they might wish to make to supplement the comments already sent to the Board.

Mr. Young, of Chicago, expressed the view that if there was to be any increase in the number of member banks in the seventh Federal Reserve district, it was imperative that some change be made in the present law with respect to capital requirements of member banks with branches.

Mr. Leach stressed the problem of further increases in reserve requirements applicable only to member banks and stated that a further increase would have a most serious effect on relationships with member banks.

In the discussion at this point, it was indicated that every one present felt that any further increase in reserve requirements

should be applied to nonmember banks, or at least to insured nonmember banks, as well as member banks. In that connection, reference was made to the legal basis for extending the authority over reserve requirements to cover all nonmember banks or only insured nonmember banks. Mr. Eccles stated that, based on decisions of the United States Supreme Court, all commercial banks were engaged in interstate commerce and authority could be made applicable to them on substantially the same grounds as authority over consumer instalment credit had been made applicable to all banks and other lending institutions, and Regulation U, "Loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange", had been made applicable to all banks.

Mr. Leedy suggested that it might be easier to apply the authority only to insured nonmember banks which would leave discretion with a State bank as to whether it would conform to the reserve requirements provided by the Federal statutes in order to obtain deposit insurance.

Mr. Davis stated that all of the Presidents were strongly of the opinion that there should be no further additions to the authority of the Board to increase reserve requirements unless such increase applied to nonmember banks or at least to insured nonmember banks.

Mr. Davis also stated that some of the Presidents felt that the Board was disposed to overlook the importance of a change in the

present law with respect to capital requirements for branches of State member banks and that a number of key banks in some Federal Reserve districts, which would otherwise join the System, were being kept out by existing requirements. He added that the Presidents hoped that the Board would stress the importance of an amendment to liberalize the law on this point.

Mr. Eccles responded that the Board recognized the importance of a change, that it had not presented the matter at the last regular session or the special session of the Congress as it was recognized that it would be futile to do so, but that there was no reason why it should not be presented at the forthcoming session.

Mr. Leedy made it clear that, from the standpoint of his district, the existing capital requirements with respect to the establishment of branches of member banks was not as important as the requirement that a State member bank have a capital sufficient to entitle it to become a national banking association. He said there were a number of banks in the tenth Federal Reserve district which were being kept out of the System because of that provision and if any further authority to increase reserve requirements were made applicable to nonmember banks, there would be banks in his district which would be under the burden of maintaining the higher reserve requirements but would be denied the privilege of membership in the System because of existing capital requirements.

Mr. Eccles referred to the bill considered at the last session of the Congress which would authorize a national bank to convert into, or consolidate with, a State bank without going into voluntary liquidation. He reviewed the legislative history of the bill and raised the question whether, under present conditions, the Board should support it.

Mr. Davis stated that the Presidents had not considered that point and suggested that the Committee on Legislation of the Presidents' Conference obtain and submit to the Board a summary of the views of the Federal Reserve Banks with respect to it. Mr. Eccles stated that it might be well for the Board to submit the question to the Federal Reserve Banks for consideration along with such material as the Board might have for consideration in connection with the matter. It was understood that this procedure would be followed.

Mr. Gilbert raised the question whether it would be possible to get an amendment to the law which would require the fixing of discount rates by the Federal Reserve Banks once each month instead of every 14 days as at present. It was the consensus that this might be included in a bill containing technical amendments affecting the Federal Reserve System when such a bill was submitted for consideration by the Congress.

Mr. Eccles then read for the confidential information of the Presidents a draft of a letter to the Budget Bureau which had been prepared by the Board in response to the request by the President

for a report on the legislative program of the Federal Reserve System. In that connection, he stressed the feeling of the Board that there should be no further authority to increase reserve requirements unless the authority was made applicable to nonmember banks. He also said that if legislation amending section 13b of the Federal Reserve Act were proposed to the Congress, it should be made clear that the Board was asking for the amendment as standby authority which would not be used in an inflationary situation such as at present.

Mr. Davis said that at least one of the Presidents thought that, while existing provisions of section 13b might be inadequate, the section was more satisfactory than legislation that might be enacted to amend it, and that it might be preferable not to propose an amendment at this time. He also said that it appeared that there was no difference of opinion in the letter on the legislative program of the Federal Reserve System which the Board proposed to send to the President, and that the questions that would arise would be in connection with the form of the legislation on the various subjects.

3. Contributions by Reserve Banks to Community Chest funds. From time to time in the past, the Conference has given some consideration to the propriety of Federal Reserve Banks' contributing to Community Chest Campaigns in the communities in which their offices are located. The pressure to do so is increasing. At its last meeting on October 1-2, 1948, this question, as well as the question of other types of contributions, was considered, and the matter was referred to the Committee on Personnel for study and report (mins. pp. 25-26). A report by the Subcommittee on Personnel to the Committee on Personnel, dated November 17, 1948, had been distributed to all Presidents, and was discussed at the meeting of the Conference on November 29. The Conference agreed to request the Board to reconsider its policy with respect to contributions, as set forth in its letters S-826 and S-911 of

January 16, 1945, and May 13, 1946, and in the memorandum S-826-a enclosed with the first of these letters (Fed. Res. L.L. Serv. #3187). While the Conference agreed to recommend authorization of contributions to the Community Chests, a majority of the Presidents did not favor going beyond that point in the modification of existing policy.

Following an amplification by Mr. Davis of the reasons for the adoption by the Presidents of the above statement, Mr. Eccles said that the Board had reviewed the situation in the light of the position taken in the two letters mentioned in the Presidents' statement and could not avoid the conclusion that that position should not be changed. He also said that it was important to note in this connection that a Federal Reserve Bank represented the entire district and not only the city in which the Bank was located, and that, if contributions were made to the community chest in that city, requests might be made for contributions to other principal cities in the district. Furthermore, he said, in 1938 a bill was introduced in Congress to authorize national banks and Federal Reserve Banks to make contributions for charitable purposes, and the Federal Reserve Banks were deleted from the bill and, as passed by the Congress, it authorized only national banks to make such contributions.

Stating that his bank has been pressed to make a contribution, Mr. Gilbert pointed out that, while it was true Federal Reserve Banks were district organizations in many respects, it was also true that their employees were recruited primarily from the communities in which the Banks and their branches are located, and that all employees

living in communities served by the Community Chest were benefited by its activities. He then reported that the directors of his Bank believed that the Federal Reserve Banks, as large employers of personnel in the communities in which their offices are located, should recognize and discharge their community responsibilities by contributing to the Chest on some fair basis, just as other large employers are doing.

The matter was discussed in the light of the Board's letters above referred to and during the discussion, Chairman McCabe joined the meeting.

Mr. Leedy suggested that since funds of the Community Chest were used in part for other than charitable activities, such as the YMCA, YWCA, Boy Scouts, and other community activities which were used by the employees of the Federal Reserve Banks, the Federal Reserve Banks might logically provide some support for these activities as distinguished from the charitable activities of the community chest.

4. Commodity Credit policy with respect to loans, particularly the division of interest. At the invitation of the Presidents, Mr. Evans, of the Board of Governors, joined the meeting and reviewed for the Conference the discussions which he had had with Fiscal Assistant Secretary of the Treasury Bartelt, concerning possible modification of the existing policies and practices of the Commodity Credit Corporation with respect to commodity loans, and particularly with respect to the division of the interest received on these loans between the Corporation and the lending banks. While it was apparent from Mr. Evans' report that no modification could be expected with respect to commodity loans for the current year, Mr. Evans expressed the hope that it might be possible to obtain some

modification for the following year. The Presidents feel that this latter possibility should be pursued further and would like to discuss the matter with the Board. In connection with Mr. Evans' report, one of the Presidents reported that certain commercial banks have complained of being placed at a competitive disadvantage with Production Credit associations in the handling of these commodity loans. According to information which these banks have received, the Commodity Credit Corporation permits the Production Credit associations to retain custody of the notes and collateral paper relating to the Commodity loans which they make, after the loans have been placed with the Corporation, while the banks are not permitted to do so. Consequently, the Production Credit associations are able to return the notes to the producers promptly upon payment, thus enabling the producers to take immediate advantage of favorable markets, whereas considerable delay is involved in obtaining possession of the notes which the banks place with the Corporation, when the loans are paid.

Mr. Leedy stated that in connection with this matter he would like to suggest that (1) it was important to increase the proportion of interest on Commodity Credit Corporation loans received by the lending banks and (2) the Board reconsider the position taken in its letter of November 10, 1948, with respect to the eligibility of Commodity Credit Corporation notes for discount by the Federal Reserve Banks.

Chairman McCabe stated that the Board had nothing to add to Mr. Evans' comment as set forth above with respect to modification of policy with respect to the division of interest on Commodity Credit Corporation loans and that the Board would be glad to explore with the Corporation the situation referred to in the Presidents' statement growing out of the procedure under which Commodity Credit notes and collateral paper were retained in the custody of the

production credit associations. He also said that the Board had given further consideration to the suggestion presented a short time ago by the Federal Reserve Bank of Kansas City that Commodity Credit Corporation notes be made eligible for discount by the Federal Reserve Banks and, unless the Presidents felt there were substantial reasons why such action should not be taken, the Board would now be disposed to take up with the Commodity Credit Corporation the feasibility of working out an arrangement which would make this possible.

Mr. Davis responded that that is what the Presidents would like to see done.

5. Increase in Reserve Bank capital accounts. Reference was made to the discussions at the last meeting of the Conference on October 2, 1948, and at the subsequent joint meeting of the Board and the Presidents on October 5, 1948, concerning the procedure to accomplish a more rapid increase in the capital accounts of the Reserve Banks, proposed in the Board's telegram of July 1, 1948, to the Presidents (mins. pp 25, 41-42). Reference was also made to the Board's telegrams of October 27 and 29, 1948, to the Presidents, authorizing the retention of $25 million for the second and third quarters of the current year instead of the $20 million originally contemplated by the procedure proposed in the telegram of July 1. The Presidents expressed gratification with the Board's action in authorizing retention of the larger sum, and it was agreed that the topic should be listed for discussion with the Board at the joint meeting to be held on Wednesday, since Mr. Carpenter, Secretary for the Board, has advised the Secretary of the Conference that the Board has been giving further consideration to the matter.

Chairman McCabe stated that since the Board's telegram of October 29, 1948, the Board had reviewed this matter from time to time and since the receipt of the Presidents' statement had considered it again. He said that it was the present view of the Board

that it would be desirable to continue, at least through the second quarter of next year, the present arrangement under which $15 million is transferred each quarter to the Federal Reserve Banks' reserves for contingencies. However, he said that the Board would be glad to discuss at this joint meeting any phase of the matter that the Presidents would like to consider.

There was a discussion of the question previously raised whether the amounts deducted should continue to be carried as reserves for contingencies or should be placed in the surplus accounts of the Federal Reserve Banks. It was the general opinion that, while ordinarily it would be preferable to place the amounts withheld in surplus, the present arrangement should be continued in order to avoid the necessity of raising at this time the question of an amendment to the existing procedure under which 90 per cent of the earnings of the Federal Reserve Banks are paid to the Treasury.

Mr. Davis stated that the Presidents hoped that the Board would continue to build up the reserve for contingencies as rapidly as practicable.

Mr. Rounds raised the question as to whether the crediting of so large an amount to a contingency reserve would not only raise a question of accounting procedure, but would also result in directly connecting this account with the System's holdings of government obligations and thus attract even more attention than would be the case if the amount were merely left in Surplus Account which is the natural depository for any undistributed earnings.

Chairman McCabe stated that the Board felt that it should not at this time raise the question of a further increase in the amount of the quarterly deduction and that the matter could be reviewed again in connection with the deduction for the third quarter of 1949.

This concluded a discussion of the matters contained in the memorandum of topics submitted by the Presidents for consideration at this meeting.

Payment by the Federal Reserve Banks of the cost of dinners in connection with another savings bond campaign. Mr. Davis stated that this morning the Presidents met with Mr. Markham, Director of Pay Roll Savings of the U. S. Savings Bond Division of the Treasury, who had requested an opportunity to speak to them about the part which the Federal Reserve Banks might play in a proposed campaign for the sale of E bonds over a 6-weeks period ending in June of next year. He added that Mr. Markham had in mind that each Federal Reserve Bank pay the cost of a dinner in its district to be arranged by the Treasury and to which would be invited leading industrial and other men in the district as one means of reactivating sales of Series E bonds. Mr. Davis said that it was the general feeling of the Presidents that inasmuch as the Federal Reserve Banks would not be asked to sponsor the dinner which would be arranged by the Treasury, the Banks might cooperate in the campaign to the extent of paying the cost of the dinner because of the interest of the System in the wide distribution of savings bonds. He also said that the Presidents

would like to know the views of the Board with regard to such an arrangement.

Chairman McCabe stated that Mr. Markham had called on him and he had suggested to Mr. Markham that he discuss the matter with Mr. Davis as Chairman of the Presidents' Conference.

Mr. Peyton stated that while the request involved only one dinner in each Federal Reserve district now, consideration should be given also to what the response would be if, as had been indicated by representatives of the Treasury to the Federal Reserve Bank of Chicago, requests were received later that the Federal Reserve Banks pay for additional dinners.

In the ensuing discussion it was suggested that the Federal Reserve Banks might pay such costs at irregular intervals as a means of cooperating in the wide distribution of savings bonds, that if the expense were to be incurred as a regular matter the Treasury should get authorization for the expenditures, and that the Federal Reserve Banks should not be placed in the position of paying expenses incurred regularly by the Treasury which Congress had not seen fit to authorize.

At the conclusion of the discussion it was generally agreed that the Federal Reserve Banks might consent to pay the cost of one dinner in each district as contemplated by the present Treasury request but that the action would not be regarded as a precedent in the event similar requests were made in the future.

Administration and enforcement of Regulation W and the effects on member banks of increases in reserve requirements. Chairman McCabe said that the Board would like very much to have the benefit of any statements that the Presidents might wish to make with respect to (a) the experience of the Reserve Banks in the administration and enforcement of Regulation W, and (b) possible effects on member banks of increases in reserve requirements under the authority granted to the Board at the recent session of the Congress.

Mr. Davis said that the Presidents had not discussed Regulation W and suggested that the individual Presidents make such statements as they might wish. It was also suggested that the Presidents might comment at the same time on the effects on member banks of increases in reserve requirements. Following is a summary of the Presidents' statements on these two topics:

(a) Administration and enforcement of Regulation W. A majority of the Presidents expressed themselves as favoring the extension of authority over consumer instalment credit. Some of the Presidents speaking on this point felt that the authority should be in permanent form and others were of the opinion that there should be a temporary extension. Most of the Presidents reported that the regulation had been well received and generally was being observed and that the Federal Reserve Banks were well advanced in their plans for adequate enforcement. The lack of opposition to the regulation was ascribed to a variety of reasons. Two or three of the Presidents questioned whether this situation would continue if the authority were a permanent one. Two of the Presidents suggested that the authority should be extended to cover charge accounts and open credits as there appeared to be a shifting to credits in these forms since the regulation became

effective. The Presidents who commented on the point stated that the regulation was being fairly effective in curtailing credit but complaints were being received that it was adversely affecting sales to a point where serious problems were being faced.

(b) Effects on member banks of increases in reserve requirements. A majority of the Presidents felt that a further increase in reserve requirements would be extremely damaging to relationships with member banks as long as the banks continued to hold the view that the only effect of an increase was to transfer Government securities from the banks to the Federal Reserve Banks and as long as the increase was not applied to nonmember banks. Member banks generally do not understand why the System would take action to place them in such a competitive disadvantage with nonmember banks when it was possible to obtain additional reserves through the sale of Government securities to the Federal Reserve Banks. Careful consideration should be given to this aspect of the problem before any further action to increase reserve requirements is taken by the Board of Governors.

Although there had been considerable talk about withdrawals from membership, there had been no actual withdrawals that could be traced directly to the recent action of Congress in granting authority to increase reserve requirements or to the action of the Board in increasing requirements under that authority. However, there had been threats of withdrawals and a substantial number of withdrawals would be expected if the Board took further action under its existing authority. Representatives of city banks in some districts were making use of this situation in their attempt to influence correspondent banks to withdraw from membership. The fact that there were few if any new applications for membership was attributed to the disadvantage of increased reserve requirements. The problem of further action on reserve requirements should be considered in the light of the conflicting policies of Government in other fields and the whole program of the Government for combating inflation should be integrated. A more satisfactory basis for fixing reserve requirements should be determined.

One President reported that two or three national banks in his district, who had complained about the increase, had stated that if they could convert to State banks without going into voluntary liquidation they would make the change; that if there were a further increase in

reserve requirements applicable only to member banks there would be real support for the proposed bill to permit conversion or absorption of national banks into State banks; and that if there were further increases in reserve requirements he would be opposed to the bill.

Mr. Eccles inquired whether the commercial banks which opposed a further increase in reserve requirements would favor abandonment of the policy of supporting the Government security market. He stated that if that policy were to be continued the System would have to be in a position to offset the reserves created by System purchases of Government securities in carrying out the support policy. This was a problem which he felt should be pointed out to banks and that they should understand.

In the ensuing discussion the Presidents made it clear that, while in their statements at this meeting on the subject of increases in reserve requirements they had presented views of banks in their respective districts so that the Board might have that information, in their discussions with the banks the point presented by Mr. Eccles as well as other related points were fully presented and explained.

Thereupon the meeting adjourned.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.