

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 22, 1948. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
 Mr. Szymczak
 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. Thomas, Director of the Division of Research and Statistics
 Mr. Vest, General Counsel
 Mr. Leonard, Associate Director of the Division of Bank Operations
 Mr. Young, Associate Director of the Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel

Mr. Evans stated that this morning he and Mr. Clayton met with the staff group on Regulation W, at which time consideration was given to the form of legislation to continue the authority of the Board of Governors to regulate consumer instalment credit, and that he would ask Mr. Solomon to present the proposal recommended by that group.

Mr. Solomon stated that last year a considerable amount of work was done on the careful preparation of a draft of bill which would grant permanent authority to the Board of Governors to regulate

12/22/48

-2-

consumer instalment credit, that copies of the bill were sent to the Chairmen of the Banking and Currency Committees on June 5, 1947, and to the Chairman of the Joint Committee on the Economic Report on December 9, 1947. He said that a group of the staff had given the draft a detailed review and that at the meeting of the staff group with Messrs. Evans and Clayton this morning it was concluded that the bill, with certain minor changes, might be submitted by the Board as its recommendation for legislation on the subject. The principal change in the draft, he said, would be to delete the subsection of the bill which set forth in detail the authority of the Board with respect to enforcement and to incorporate such authority by a brief reference to similar provisions now contained in the Securities Exchange Act of 1934 as was done in Public Law 905 granting temporary authority to the Board to regulate consumer instalment credit.

Mr. Solomon made the further statement that in a discussion of the bill with members of the staff of the Council of Economic Advisers it was agreed that the bill, like other legislation to be proposed by the President, should state the reasons for the legislation and should not base the authority on existing executive orders or legislation. He added that if the Congress should not be willing to pass consumer credit legislation in this form, it would be necessary to have alternative drafts of bill available which

12/22/48

-3-

would be along the lines of Public Law 905 with certain changes that would be necessary if the authority was to be made permanent.

Mr. Evans stated that the office of the Chairman of the Council of Economic Advisers, who was assembling the drafts of legislation to be proposed by the President, had asked that a draft of consumer credit legislation be submitted not later than tomorrow, December 23, and that, therefore, he would move that the Board approve the draft of bill as outlined by Mr. Solomon with the understanding that alternative drafts of legislation as referred to by the latter would be prepared later, together with a statement of the reasons why the legislation should be adopted.

Mr. Evans' motion was put by the Chair and carried unanimously.

Chairman McCabe referred to the three statements approved at the meeting of the Board on Friday, December 17, 1948, with respect to legislation to be proposed by the Board which would grant additional authority to the Board of Governors to increase reserve requirements and which would be applicable to all insured banks. The statement on this subject suggested for inclusion in the State of the Union message was as follows:

"Adequate means should be provided so that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. To this end, particularly in view of the need for maintaining support of the Government bond market, it is essential that Congress

12/22/48

-4-

"promptly provide the Federal Reserve System with supplemental authority covering reserves of the banking system. In order to be equitable, such supplemental reserve requirements must be applicable to all insured banks."

Chairman McCabe stated that during further discussions of the matter since the meeting on December 17 the suggestion had been made that, in order to avoid raising a controversial question in the State of the Union message, the paragraph be amended by deleting the last sentence thereof.

In the ensuing discussion, during which Mr. Evans left the meeting to keep another appointment, it was agreed that the question presented by the suggestion was whether the deletion of the last sentence of the paragraph would leave the way open at a later date for the specific proposal that the legislation apply to all insured banks or whether it would be interpreted as a proposal that the legislation apply only to member banks.

In the course of the discussion of this question, the suggested paragraph for inclusion in the President's Economic Report and the outline of legislation on reserve requirements needed by the Board of Governors, as approved at the meeting on December 17, 1948, were read. It was the consensus that if the reference to insured banks as contained in the suggested paragraph for the Economic Report were retained in that paragraph and the paragraph was included in the Economic Report there would be no objection to dropping the last

12/22/48

-5-

sentence of the paragraph prepared for inclusion in the State of the Union message.

Mr. Draper suggested that, inasmuch as the support of the Treasury would be necessary to the approval by Congress of any legislation proposed by the Board on this subject, Chairman McCabe might discuss the three statements with Secretary of the Treasury Snyder after which the Board could consider the matter again.

It was agreed unanimously that this procedure should be followed, that Chairman McCabe would try to make an appointment with the Secretary of the Treasury for that purpose this afternoon, and that if he were able to do so there would be a further discussion of the matter at the meeting of the Board to be held tomorrow at 10:30 a.m.

Mr. Vest stated that members of the staff of the Council of Economic Advisers working with the Chairman of the Council in assembling the drafts of legislation for the President's program had asked for a copy of the draft of legislation on reserve requirements not later than tomorrow, December 23, and that, while a draft of bill had been prepared in the same form as that prepared by the Board last year with such changes as were necessary to conform to the statements approved at the meeting of the Board on December 17, 1948, there were several questions that would have to be decided by the Board before the draft could be put in final form.

12/22/48

-6-

It was agreed unanimously that copies of the draft bill and questions referred to by Mr. Vest would be sent to the members of the Board and that the matter would be discussed at the meeting to be held tomorrow at 10:30 a.m.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 21, 1948, were approved unanimously.

Memorandum dated December 17, 1948, from Mr. Coleman, Administrative Assistant to the Chairman, recommending an increase in the basic salary of Otto H. Branic, a messenger in the Chairman's office, from \$2,498.28 to \$2,573.52 per annum, effective December 26, 1948.

Approved unanimously.

Memoranda from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective December 26, 1948:

Date of Memo.	Name	Title	Salary Increase	
			From	To
11/24/48	Lorman Trueblood	Economist	\$6,235.20	\$6,714.00
12/7/48	Clarke L. Fauver	Economist	6,235.20	6,714.00
11/24/48	Dorothy I. South	Economist	4,228.80	4,479.60
12/8/48	Mrs. Genevieve Gilardi Duarte	Clerk	2,799.24	2,949.72

12/22/48

-7-

Approved unanimously.

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

"Reference is made to your letter of December 13, 1948, submitting the request of the Farmers and Merchants Bank, Forest, Mississippi, for approval under Section 24A of the Federal Reserve Act, of a proposed additional investment in bank premises of \$72,814.00, for the construction of a new bank building.

"It is noted that the lease on the present banking quarters will expire next year and that the bank has not been able to obtain a renewal thereof. It is noted also that the bank expects to charge off \$20,000 during the current year to provide for a portion of the construction cost, and to provide depreciation on its building and equipment as fast as earnings will permit. Therefore, in accordance with your recommendation, the Board of Governors approves the investment in bank premises as proposed."

Approved unanimously.

Letter to the "Lake Charles Bank and Trust Company", Lake Charles, Louisiana, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of the Gulf National Bank at Lake Charles, the national bank into which the Lake Charles Bank and Trust Company, Lake Charles, Louisiana, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, 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

12/22/48

-3-

"Louisiana, 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.

"After the conversion of the Lake Charles Bank and Trust Company, Lake Charles, Louisiana, into the Gulf National Bank at Lake Charles becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Atlanta for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

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

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

"This refers to your letter of December 8, 1948, enclosing a copy of a letter to your Bank of November 18, 1948, from Cadwalader, Wickersham & Taft, in New York City, concerning Regulation W.

"The question presented by the above correspondence is whether a reduction in the rate of interest on a pre-September 20, 1948 instalment loan would constitute a 'revision' of the loan under section 5(a) of the regulation, requiring compliance with that section. Normally the reduction would be effected simply by a letter from the lender to the borrower; and, except for a pro rata scaling down of instalment payments, the obligation would not otherwise be changed or modified.

"The Board is of the view that a reduction in interest rate accomplished in the above manner and in good faith would not constitute a 'revision' under section 5(a). However, if an instalment loan were one subject to the regulation, a reduction of interest should not result in scheduled payments below the minimum amounts required by sections 4(c), 5(a)(2), and Part 2 of the Supplement to the regulation.

12/22/48

-9-

"In general, the above would appear to conform with your views."

Approved unanimously.

Letter to Mr. Shuford, Counsel of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of December 14, 1948, regarding the status of dealer-salesmen of the Sperry-Kirby Company, 3614 Milam Street, Houston, Texas, with respect to registration under Regulation W.

"As you indicate the operations of these dealer-salesmen appear to be similar to those of the Martin-Parry Corporation.

"The Board agrees with your suggestion that the matter of these dealer-salesmen be worked out along lines similar to those worked out with the Martin-Parry Corporation with respect to its dealer-salesmen, and the Board will be glad to have you work out such an arrangement.

"For your convenient reference in the event you do not already have copies, there is attached a copy of the letter on the subject from Mr. N. E. Hutchens, Counsel for Martin-Parry Corporation, and a copy of the letter which Mr. Hodge of the Federal Reserve Bank of Chicago wrote to Mr. Hutchens in reply."

Approved unanimously.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City, made as of September 16, 1948, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Leedy.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated.

12/22/48

-10-

"In this connection it is understood that Mr. Murff mentioned to you that since Mr. Bollinger is new as the Auditor and is not too well supported by a strong auditing staff, he needs and should have the benefit of contact with the directors. Mr. Murff appears to feel that Auditor Bollinger has been content merely to effectuate the policies of his predecessor, is not fully aware of the value of maintaining a close relationship with the directors, and that his supporting staff is no better than mediocre.

"It is understood that Governor Vardaman discussed the matter with President Leedy during his recent attendance at the Presidents' Conference.

"After you have the opportunity to look into this situation, the Board would appreciate hearing from you in regard to your appraisal of it and whether you feel the audits carried on in your Bank are satisfactory as to scope and quality."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your Bank's letters of November 26, 1948, and December 13, 1948, in which you advised that it appears that the expenses at your head office and branch will exceed the budget estimate for the year as follows:

	<u>Head Office</u>	<u>Buffalo Branch</u>
General Overhead	\$198,755	
Provision of Personnel		\$ 2,456
General Service		8,214
Postage & Expressage	31,723	8,976
Consumer Credit		4,500
Currency & Coin	170,514	
Check Collection	330,000	14,621
Accounting	24,000	7,286
Federal Reserve Note Issues	38,815	400

"The Board accepts the revised figures as submitted, and appropriate notations are being made in the Board's records. We have also made the adjustment notations referred to in the last paragraph of your November 26, 1948, letter."

Approved unanimously.

12/22/48

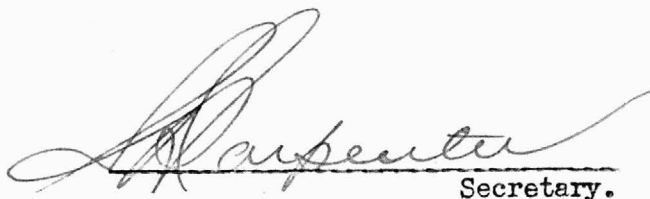
-11-

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


"Reference is made to your letter of December 14, 1948, in which you advised that it appears that the expenses for the Furniture and Equipment function at your Cincinnati Branch will exceed the budget estimate for the year by \$11,000.

"The Board accepts the revised figure as submitted, and appropriate notations are being made in the Board's records."

Approved unanimously.


Secretary.

Approved:


Chairman.