

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 28, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
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. 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

Reference was made to a memorandum from Messrs. Young and Solomon transmitting a draft of letter prepared in accordance with the understanding at the meeting on December 21, 1948, relating to the establishment by the President of a Federal Loan Policy Committee. The draft was read and in the ensuing discussion Mr. Vardaman raised the question who would be Chairman of the proposed Committee, stating that he felt the Chairman of the Council of Economic Advisers should serve in that capacity. In this connection Mr. Vardaman said that he felt there was a danger in having any cabinet officer, such as the Secretary of the Treasury,

12/28/48

-2-

serve as Chairman of the proposed group since such an arrangement might make it appear that one cabinet officer dominated another.

Chairman McCabe asked for the views of the other members of the Board and in the ensuing discussion the Secretary of the Treasury and the Chairman of the Board of Governors were suggested as positions that might logically serve as Chairman of the Committee.

At the close of the discussion, the draft of letter was approved unanimously in the following form, with the understanding that Messrs. Young and Solomon would discuss it with Mr. Lynch, General Counsel of the Treasury, that Chairman McCabe would discuss it with Secretary of the Treasury Snyder, and that it would be presented as a basis for discussion at the next meeting of the technical staff group meeting under the auspices of the Chairman of the Council of Economic Advisers which would be held next Tuesday, January 4, 1948. In taking this action it was understood that the Secretary would inform Messrs. Eccles and Draper so that they could express their views before the draft letter was presented to the staff group on January 4:

"As you know, the Employment Act of 1946 declares that 'it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, . . . to coordinate and utilize all its plans, functions, and resources . . . to promote maximum employment, production, and purchasing power.'

"Gratifying progress has been made in coordinating the activities of the Government, including those relating to Federal loan and loan guarantee policies, but experience has shown the need for further steps

12/28/48

-3-

"in that direction. Accordingly, I am asking you, as _____, together with the heads of several other Federal departments or agencies, to serve as members of a Federal Loan Policy Committee. The other members of the Committee are to include _____, _____, etc.

I am asking _____, _____, _____, to serve as Chairman of the Committee.

"The purpose of the Committee is to promote consistency in the domestic loan and loan guarantee policies of all Federal agencies and consistency of such policies with the general economic policies of the Government. By Federal domestic loan and loan guarantee policies, I mean all policies--other than those necessarily involved in central banking, monetary, or public debt functions--which pertain to the granting, regulating, supervising, refinancing, insuring, or guaranteeing of domestic loans by any Federal agency.

"In more specific terms, my thought is that the Committee should be responsible for integrating all Federal loan and loan guarantee policies in the domestic field with each other and with national economic policies in order to further the objectives of the Employment Act of 1946. Such integration should relate among other things, to percentages of Federal guarantees or insurance of loans, down payments, loan values, loan maturities, interest charges, appraisal standards, and similar or related matters.

"I consider this assignment to be of great public importance. Therefore, if you can not be present personally at any Committee meeting, it is my desire that you be represented by an officer of your agency who has general authority to act in your absence. Agencies which are not regularly represented on the Committee, may be invited by the Chairman to participate whenever the occasion warrants.

"I am aware that, in certain matters, discussions of this Committee may not result in substantial consistency in national policy. In this event, where the question is of such a character or importance, I am asking the Committee, through its Chairman, to report directly to me concerning the nature of the problem, any substantial difference of viewpoint existing on the subject, and the recommendations of the Committee. I am further requesting the Committee to submit to me

12/28/48

-4-

"each year an annual report dealing with its activities during the preceding twelve months and also to submit such interim reports as the Committee may deem to be appropriate. The Committee's annual report should reach my office not later than December 1 of each year in order to be available in connection with the preparation of the President's Economic Report.

"I am sure you will appreciate the public interest which will be served by such a Federal Loan Policy Committee. I am reluctant to add to your already heavy burdens of office, but I consider such a Committee to be essential in furthering the objectives of the Employment Act of 1946."

"Note: The following are some agencies that might be included in the Committee: Departments of Treasury, Agriculture and Commerce, Board of Governors of the Federal Reserve System, Reconstruction Finance Corporation, Housing and Home Finance Agency, Veterans Administration, Bureau of the Budget, Council of Economic Advisers."

Secretary's Note: Mr. Draper informed the Secretary that he approved the proposed letter and Mr. Eccles said he would have no objection if it were made entirely clear that the regulation of margin requirements and consumer credit were a supplement to the general credit control powers of the System and therefore should be excluded from the matters on which the Loan Policy Committee would make recommendations.

Mr. Carpenter read a memorandum prepared under date of December 24, 1948, by Mr. Vest giving the majority views of the staff on questions relating to a reserve requirement bill. The memorandum stated that, in accordance with the discussion at the meeting on December 23, the staff committee recently appointed to consider proposed legislation discussed the proposed bill to give the Board authority to prescribe additional reserve requirements for all

12/28/48

-5-

insured banks up to 10 per cent of demand deposits and 4 per cent of time deposits, and that it was the consensus that interest would be paid by the Reserve Banks on the reserve balances required of insured banks under the new bill at such rate and during such times as might be authorized by the Board. The memorandum also stated that enforcement of the bill as to nonmember insured banks would be accomplished by utilizing State authorities as far as practicable under regulations to be prescribed by the Board, that penalties for deficiencies in reserves would be fixed solely in the discretion of the Board, that substantial or repeated failure to comply with requirements prescribed by the Board would constitute a violation of law which would subject the bank to the penalties stated in the memorandum, and that the bill would provide that the reserve requirements which it imposed would be in addition to other reserve requirements to which banks were already subject under State or Federal law. The memorandum suggested that the Federal Reserve Banks be given an opportunity to review the proposed legislation before it was presented to Congress.

Chairman McCabe stated that he felt the bill should indicate that full responsibility for enforcement of the legislation would, in the case of nonmember insured banks, rest with the State bank supervisory authorities, and it was agreed that as far as practicable this course should be followed.

12/28/48

-6-

Mr. Evans suggested that the bill also provide that reasonable expenses incurred by State supervisory authorities in enforcing the law be reimbursed by the Federal Reserve Banks upon submission of proper vouchers, and it was agreed that such a provision should be incorporated.

In a discussion of the question whether the new legislation should provide for the payment of interest on reserve balances, Mr. Vardaman stated that, for reasons which he discussed, he felt it would be a mistake for the Board to establish a precedent of paying interest on reserve balances and he suggested that, if practicable, some other means be provided for allowing banks a return on a portion of the reserves they would be required to carry.

Chairman McCabe called on the members of the staff present for their comments on this point and a variety of opinions were expressed. He then called on the members of the Board for their views.

Mr. Szymczak favored the special reserve plan but, recognizing that it would not be possible to obtain legislation in that form, he would accept a provision authorizing the payment of interest.

Mr. Evans expressed a similar view, stating that he thought the problem should be discussed with the Chairmen of the Banking and Currency Committees and if they were not favorable to the

12/28/48

-7-

payment of interest there would be little chance for passage of the legislation. He said he would favor (1) legislation granting additional authority over reserve requirements, (2) having the legislation cover nonmember insured banks, and (3) some return to banks on reserve balances.

Mr. Vardaman concurred in the three points mentioned by Mr. Evans, adding, however, that he felt it was necessary to work out some plan of getting increased authority over bank reserves and giving banks earnings on reserve balances, without the payment of interest on such balances.

To accomplish the latter he favored a provision which would permit the investment of a portion of reserve balances in Treasury bills or certificates.

Mr. Clayton said that, while he agreed with Mr. Evans position and would favor the special reserve plan, he thought that under existing conditions there was merit in an authority permitting reimbursement to the banks by the payment of interest on additional reserves which would be immobilized by the legislation. However, he preferred a provision that would permit such payments on excess reserve balances only to the extent necessary to encourage banks to abandon the present practices of making large shifts of funds to and from their reserve accounts in order to keep their surplus funds as fully invested as possible.

12/28/48

-8-

Chairman McCabe said that in the next few days he would initiate discussions of the proposed legislation with the Chairmen of the Banking and Currency Committees. He also said he would have further discussions with Messrs. Nourse and Snyder of the three statements on reserve legislation approved at the meeting of the Board on December 17, 1948, and report to the Board the outcome of the discussion.

At the close of the discussion, the staff was requested to study further the questions discussed at this meeting in connection with the problem of enforcing the provisions of the new legislation and, in consultation with Messrs. Vardaman and Clayton, to submit another report to the Board.

In this connection reference was made to a memorandum prepared by Messrs. Young and Solomon under today's date which referred to a meeting at the offices of the Council of Economic Advisers on Friday, December 24, 1948, attended by staff representatives of selected departments and independent agencies at which there was a discussion of a proposed omnibus bill entitled "Stabilization Act of 1949". The memorandum summarized the draft bill, stating that it resembled the Barkley Bill (S. 2910) introduced into the special session of Congress in July 1948, that its statement of purpose had more of an "emergency" and "inflation" setting than was contemplated by drafts of credit legislation on which the Board's staff had been working, that it included

12/28/48

-9-

the Board's draft of consumer credit legislation approved at the meeting on December 22, 1948 and provided space for bank reserves legislation, and that it contained proposals for allocations, priorities, price controls, etc. The memorandum also stated that, since the Board's emphasis had been on long-term stability and on maintenance of sound credit conditions, there was a question whether legislation on either consumer credit or bank reserves should be in an omnibus bill which emphasized "emergency" and "combatting inflation". It also raised the question what attitude should be taken toward the broad and apparently permanent powers of direction and coordination which the bill would authorize the President to exercise over Government agencies.

In a discussion of the questions raised, it was noted that, at the meeting on December 23, 1948, the Board agreed that legislation with respect to reserve requirements should not be included in an omnibus bill, but that there would be no objection to the inclusion of consumer credit legislation. Chairman McCabe stated that he called Dr. Nourse on the telephone after the meeting on December 23, and told him that the Board would prefer that the omnibus bill being prepared under Dr. Nourse's direction not include any proposal for legislation on reserve requirements and that Dr. Nourse indicated this was acceptable to him.

12/28/48

-10-

The view was expressed that if the omnibus bill included proposed consumer credit legislation without making reference to legislation on reserve requirements, there might be an implication that consumer credit legislation was all that was necessary to meet the situation, and that at the proper time the Board should request that the legislation to be proposed by the Board on reserve requirements and consumer instalment credit be not included in the omnibus bill.

This suggestion was approved unanimously.

Chairman McCabe stated that he recently received a telephone call from Mr. Stevenson, Governor-elect of the State of Illinois, who stated that he wanted to invite Mr. George W. Mitchell, Senior Economist of the Federal Reserve Bank of Chicago, to serve in the Governor's cabinet as Director of Finance for the State of Illinois, and as such to study and make recommendations for changes in the tax situation in the State. Governor Stevenson inquired whether there would be any objection to the Bank granting Mr. Mitchell a leave of absence without pay with the understanding, Chairman McCabe said, that at the end of his service as Director of Finance for the State he could return to his position at the Federal Reserve Bank.

Mr. Carpenter stated that in a letter dated December 24,

12/28/48

-11-

1948, Mr. Young, President of the Federal Reserve Bank of Chicago, stated that at a meeting on December 23 the executive committee of the Chicago Bank approved a leave of absence without pay for Mr. Mitchell for the purpose outlined, and that the appointment was strictly in recognition of Mr. Mitchell's ability and was not considered by the public or the State administration as a political assignment.

Following a discussion, it was voted unanimously that Mr. Young be informed by the Secretary by telephone that the Board would interpose no objection to the arrangement on the assumption that there would be no developments during Mr. Mitchell's assignment which would so link him with politics in Illinois as to make his reemployment undesirable.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 23, 1948, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 24 and 27, 1948, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated December 14, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending

12/28/48

-12-

an increase in the basic salary of Murray S. Wernick, an economist in that Division, from \$5,733.60 to \$6,235.20 per annum, effective January 9, 1949.

Approved unanimously.

Letter to the Escrow & Loan Service Co., Incorporated, South Pasadena, California, reading as follows:

"This refers to your company's application for a determination by the Board that it is not engaged as a business in holding the stock of, or managing or controlling, banks.

"From the information supplied, it is understood that your company is engaged in the escrow and loan service business; that it owns a majority of the outstanding shares of stock of Pasadena-First National Bank, Pasadena, California; that it does not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than the Pasadena-First National Bank; and that it is not itself managed or controlled by any bank holding company or other organization.

"In view of these facts, the Board has determined that your company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, your company is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, your company should at any time own or control a substantial portion of the stock of, or manage or control, more than one banking institution or there should be any other change in the facts which would indicate that your company might be engaged in the business of holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

12/28/48

-13-

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

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

"Summaries of Regulation W Enforcement Reports for the month of November are enclosed.

"A review of the individual reports, copies of which we assume have been exchanged among the Banks, discloses several items of general interest. Included are comments on excellent working arrangements established by some Banks with cooperating agencies; effective methods used in dealing with objectionable advertising; methods used to obtain registration in cases where it appears that certain unregistered businesses should be registered; and tendencies on the part of some automobile dealers to sell automobiles on a single payment basis with subsequent conversion to a nonconforming instalment basis.

"Another interesting comment illustrates the weakness of vendor investigations which consist only of checking contracts to the exclusion of cash records, open accounts receivable and other records."

Approved unanimously.

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

"Thank you for your letter of December 6, 1948, concerning Regulation W and the 'Balanced-Budget Plan' of the Industrial Bank of Commerce of New York. We concur in your opinion that the registrant's lending policy should be checked from the standpoint of compliance with the regulation, and we note that the New York State Banking Department officials also agree with that view. We will be interested in the results of the investigation.

"Regardless of whether actual violations have taken place, however, the advertising is misleading

12/28/48

-14-

"and is not in keeping with the spirit of Regulation W."

Approved unanimously.

Letter to Mr. L. J. Asterita, Secretary, Committee on Consumer Credit, American Bankers Association, 12 East 36 Street, New York 16, New York, reading as follows:

"We have your letter of November 26 in which you inquire about the provisions of Regulation W with respect to (1) the sale of an unlisted article on an instalment basis and (2) an instalment loan to purchase an unlisted article.

"The regulation does not apply to instalment obligations arising from the sale of unlisted articles where such obligations are payable to the seller and, so far as Regulation W is concerned, banks and other financial registrants may purchase such obligations regardless of their terms.

"However, where the seller takes an instalment obligation payable to a financial registrant in connection with the sale of an unlisted article, such an obligation, if for \$5,000 or less, would be subject to section 4(b) of the regulation as an 'unclassified instalment loan.' Similarly, a loan for \$5,000 or less made by a financial registrant to a borrower for the purpose of purchasing an unlisted article would be subject to section 4(b). Of course, in either case, if the credit is exempt by reason of section 7, the regulation would not apply.

"The regulation which expired on November 1, 1947, was similar to the foregoing in its application. The old regulation applied to instalment sales of listed articles, to instalment loans to purchase listed articles and to other unclassified, non-exempt instalment loans.

"The application of the regulation, in its present scope, to instalment obligations arising from sales of unlisted articles is necessarily dependent on the way the financing is arranged. This cannot be avoided without a drastic change in the scope of the regulation, either to eliminate regulation of unclassified instalment loans or to bring instalment sales of unlisted articles under the regulation.

12/28/48

-15-

"Unclassified instalment loans represent, in our opinion, an important segment of consumer instalment credit which must be regulated if Regulation W is to accomplish its purposes. Of course, it would be possible to enlarge the scope of the regulation to include many articles not presently listed, but such an enlargement of the regulation would place a heavy burden on many registrants. Since the volume of instalment sales credit extended for unlisted articles is relatively small and stable, compared with the volume and variability of the regulated segments of credit, it appears to us that such an additional burden on registrants would not be justified at this time."

Approved unanimously.

Memorandum dated December 23, 1948, from Mr. Smead, Director of the Division of Bank Operations, submitting requests from the Federal Reserve Banks for authority to pay the regular semi-annual dividend at the end of 1948, and to make charge-offs or other year-end adjustments.

The memorandum stated that current earnings for 1948 would be approximately \$303,762,000 and current expenses would amount to about \$72,285,000, leaving current net earnings of about \$231,477,000; that additions to current net earnings, including \$5,213,000 profits on sales of Government securities, would amount to about \$5,511,000; that deductions from current net earnings would approximate \$407,000; that additions to reserves for contingencies would be about \$40,423,000, consisting of \$423,000 additions to reserves for registered mail losses and the \$40,000,000 deduction to be prorated among the Federal Reserve Banks and transferred to reserves for contingencies before computing

12/28/48

-16-

interest on Federal Reserve notes; and that payments to the Treasury as interest on Federal Reserve notes not covered by gold certificates pledged with the Federal Reserve Agent as collateral would be about \$165,805,000, including an estimated payment of \$54,798,000 to be made as of December 31, 1948 for the last quarter of the year. Net earnings for the year were estimated at \$30,353,000. Dividends would amount to \$11,930,000, leaving net earnings available for transfer to surplus of about \$18,423,000.

The memorandum further stated that, in accordance with the understanding at the December 1, 1948, joint meeting of the Presidents and the Board, \$15,000,000 would be deducted before computing the payment to the Treasury for the last quarter of interest on Federal Reserve notes outstanding not covered by gold certificates which, added to the \$10,000,000 and \$15,000,000 deducted for the second and third quarters, respectively, gave a total of \$40,000,000 to be pro-rated to the Federal Reserve Banks in proportion to their net earnings before dividends.

The memorandum also stated that additions to the reserve for registered mail losses under the Loss Sharing Agreement of the Federal Reserve Banks would amount to about \$423,000 which, under the Board's Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements, are to be charged to profit and loss.

12/28/48

-17-

Recommendations contained in the memorandum with respect to the requests of the Federal Reserve Banks were approved unanimously as follows:

1. Each Federal Reserve Bank was authorized to pay the regular semiannual dividend on December 31, 1948, estimated to amount to a total for the twelve Banks of \$6,003,000.
2. The Federal Reserve Bank of Cleveland was authorized, for reasons set forth in the memorandum, to set up a reserve of \$100,000 against a commitment on a Section 13b loan to Hanagan Brothers, Inc.

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

"Please observe following procedure regarding year-end closing of books:

"1. On December 31 make careful estimate of reimbursable expenses for which claims have not been submitted. Deduct such estimate from operating expenses and report against asset item 'Fiscal agency and other expenses, reimbursable'.

"2. On Monday, January 3, wire Board so as to reach Washington by noon E.S.T.:

- (a) Average daily amount Federal Reserve notes outstanding in excess of gold certificates pledged with Agent for last quarter of 1948. (Code OUTS)
- (b) Net earnings for 1948 after deducting dividends for year and interest on Federal Reserve notes for first three quarters but without any provision for pro rata share of 40 million dollars deduction as agreed at December 1 joint meeting of Presidents and Board. (Code NTEA)

"3. Upon receipt of above information Board will determine your Bank's pro rata share of 40 million dollars to be transferred to reserves for contingencies and rate of interest and amount to be paid to Treasury for last

12/28/48

-18-

"quarter of 1948 on daily average outstanding Federal Reserve notes not covered by gold certificates pledged with Agent.

"4. Credit payment to Treasury for last quarter of 1948 to 'Other deposits' on Form F. R. 34 for December 31 and credit Treasurer's General Account on January 3.

"5. In prorating \$40,000,000 among Federal Reserve Banks it is proposed to round out the figure for each Bank to an even thousand. It is suggested that in all public statements all reserves for contingencies be combined in one figure."

Approved unanimously.

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

"This is in reply to your letter of December 6, regarding the setting up of additional contingent reserves by the Federal Reserve Banks at the end of this year.

"You have set forth very clearly reasons why you think it preferable to credit to surplus rather than to contingent reserves the amounts which have been deducted from current net earnings. Were it not for the circumstances under which the formula for distributing earnings was developed, the plan you suggest might be the most advisable to follow.

"As you mention, at the recent joint meeting of the Presidents with the Board on December 1, 1948, this matter was discussed, and it was the general opinion of the Presidents that, while ordinarily it would be preferable to transfer the amounts withheld to 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 net earnings of the Federal Reserve Banks after dividends are paid to the Treasury. The Board concurs in this view.

"In your letter you express the opinion that, technically, it would not be necessary to issue an amended statement if the amounts in question were transferred to surplus.

12/28/48

-19-

"Regardless of any question of technicality, the Board believes that such a course would not be in keeping with the arrangement. The press statement issued April 23, 1947, regarding the payments to the Treasury appeared also in the Federal Reserve Bulletin, the Annual Report of the Secretary of the Treasury, and, in condensed form, in the Board's Annual Report. The whole tenor of the statement was that of a continuing arrangement made in lieu of payment of a franchise tax. In view of the circumstances leading up to the adoption of the arrangement, with which you are familiar, the Board believes that it would not be appropriate to make the transfers to surplus without reopening the matter with the Government officials with whom it was discussed and the issuance of an amended statement.

"There remain, therefore, the alternatives of revising the arrangement and issuing a new statement or of continuing under the present understanding, which is satisfactory to the Treasury.

"The Board does not believe that the crediting of 10 million dollars to contingent reserves by your Bank or the crediting of 40 million dollars to contingent reserves by all twelve Federal Reserve Banks during the year would call for the issuance of an explanatory statement, as it is consistent with practices currently followed by both banks and business organizations and the amounts are not out of line with the size of the Banks. It would not seem that the setting aside of contingent reserves of 40 million dollars by organizations with total footings of approximately 50 billion dollars could reasonably be considered excessive or likely to bring forth substantial criticism.

"If a question were raised regarding the appropriateness of the reserves it might be pointed out in addition that the Reserve Banks ship many millions of dollars of currency daily and carry their own risks on such transactions, that they have premium accounts of approximately 80 million dollars on their books brought about largely by operations in recent months, and that in all of the circumstances it was considered desirable to make the transfers to reserves for contingencies.

"Attached is an illustration of how the Board proposes to show the profit and loss account of the Federal Reserve Banks in the Annual Report. The figures shown in the example are, of course, merely illustrative.

12/28/48

-20-

"In view of the interest of the other Federal Reserve Banks in this question, the Board is sending to the other Presidents copies of your letter and of this reply."

Approved unanimously.

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

"There is enclosed for your information a copy of a letter dated December 20, 1948, received from the Third Assistant Postmaster General, with respect to increases effective January 1, 1949, in registry and insurance fees for domestic registered and insured mail and in the rate of postage on fourth-class matter. It is assumed that a copy of the enclosure referred to in the letter, a reprint of notice entitled 'Increased Domestic Postage Rates and Special Service fees effective January 1, 1949', from the Postal Bulletin of October 14, 1948, is already in the files of the Reserve Banks."

Approved unanimously.

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

"This refers to your letter of August 16, 1948, concerning the method of accounting for group life insurance and the interpretation of the Board's letter of July 30, 1937, as to bringing to the Board's attention the question of continuance of the group life insurance policy. We regret that an answer has been delayed for so long.

"It is understood that all receipts and payments connected with group life insurance are recorded in the account 'Employees' group insurance', which is carried on the balance sheet in 'Sundry items receivable.' You state that since 1944, when a debit balance representing accumulated premium differentials for the eight policy years ending July 1, 1943, was charged to profit and loss at the suggestion of the Board's examiners, your Bank has determined the cost experience for each individual policy year and the resultant balance, whether

12/28/48

-21-

"debit or credit, has been transferred to profit and loss.

"You propose to transfer from profit and loss to this account the amount of \$16,574.06, representing the excess of premiums collected and dividends received over premiums advanced by the Bank for the period beginning August 1, 1935, and ending July 31, 1947. This credit balance would be carried forward from year to year as a reserve against which to charge any loss which might be experienced in future years. A debit balance, however, would not be carried forward but would be transferred to profit and loss. We agree that it would be desirable to maintain a record or supplementary account which would show the cumulative experience under the group life insurance policy. Under the proposal, however, the 'Employees' group insurance' account would fulfill this purpose only if the cumulative experience continued to be favorable, inasmuch as any debit balance would not be carried forward.

"Since 1944 the Board's manual of Instructions Governing the Preparation of Earnings and Expense Reports has provided for charging the cost to the Bank of group life insurance to current expenses. As mentioned in your letter, certain Federal Reserve Banks are carrying on their books a credit balance or 'reserve' similar to the one your Bank proposes to establish, but these credits were not set up through a charge to profit and loss account but originated prior to 1945 from a favorable experience under the respective policies. In view of these considerations, we believe that your Bank should continue to follow the accounting procedure now in use.

"The Board's letter of July 30, 1937, contained the statement quoted below:

The Board will interpose no objection to your continuing your contributory group life insurance contract, amended as proposed, with the understanding that you will bring the question of continuance of the policy to the Board's attention for consideration in case you find at any time that the net annual cost to the bank is likely to be materially in excess of \$1,500.

You state that your Bank has considered a proper interpretation of this statement to be that the experience should be considered on a cumulative basis and that so

12/28/48

-22-

"long as the Bank's cumulative loss did not exceed \$1,500 times the number of years the policy had been in effect, it was not necessary to take the matter up with the Board of Governors. The Board has no objection to this interpretation."

Approved unanimously.

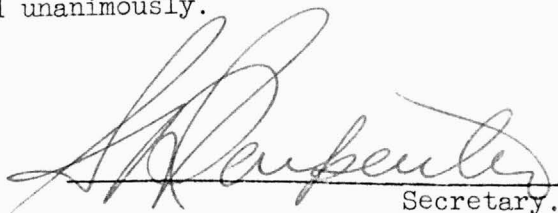
Letter to Mr. McCreedy, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of December 15, 1948 and subsequent telephone conversation of December 20, 1948, in which you advised that it appears expenses at your Bank will exceed budget estimates for the year as follows:

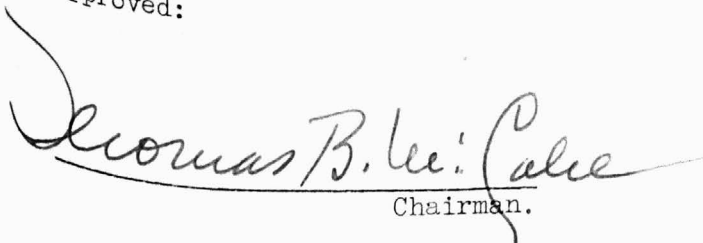
General Overhead	\$27,000
Provision of Space	2,000
Provision of Personnel	7,000
Postage and Expressage	3,000
Consumer Credit	21,000
Noncash Collection	3,000
Planning	2,000
Legal	4,000
Federal Reserve Note Issues	16,000
Foreign	2,000

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

Approved unanimously.


Secretary.

Approved:


Chairman.