

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 17, 1949.

PRESENT: Mr. McCabe, Chairman
Mr. Draper
Mr. Evans
Mr. Clayton

Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 16, 1949, were approved unanimously.

Letter to Mr. Weigel, Assistant Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board will interpose no objection to the transfer of the Hospital-Surgical Memberships of the employees of the Little Rock Branch from the St. Louis Plan to the Arkansas Plan as reported in your letter of February 11, 1949."

Approved unanimously.

Letter to the board of directors of the "Citizens State Bank & Trust Company", Kilgore, Texas, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas, effective if and when the bank is authorized to commence business by the appropriate State authorities. The letter also contained the following special comment:

2/17/49

-2-

"It has been noted that the bank possesses authority to exercise fiduciary powers, but does not contemplate the immediate exercise of such powers. Attention is called to the fact that if the bank should in the future desire to exercise fiduciary powers, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before doing so."

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

"As you were advised in a telegram dated February 17, 1949, the Board of Governors of the Federal Reserve System has approved the application of the Citizens State Bank & Trust Company, Kilgore, Texas, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Texas, for his information."

The following amendment to Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, was adopted unanimously, effective February 17, 1949:

"AMENDMENT TO REGULATION A

"Issued by the Board of Governors of the Federal Reserve System
"Effective February 17, 1949, Regulation A is amended in the following respects:

"1. The last sentence* of subsection (h) of section 1 is amended to read as follows:

*This sentence was added to the Regulation in 1942 and constitutes the third sentence of subsection (h) of section 1.

2/17/49

-3-

"The requirement of this section that a note be negotiable shall not be applicable with respect to any note evidencing a loan which is made pursuant to a commodity loan program of the Commodity Credit Corporation and which is subject to a commitment to purchase by the Commodity Credit Corporation.'

"2. Subsection (a) of section 2 is amended by adding thereto a new sentence reading as follows:

'In the event notes which evidence loans made pursuant to a commodity loan program of the Commodity Credit Corporation and which comply with the maturity requirements of subsection (a) of section 1 of this regulation have been deposited in a pool of notes operated by the Commodity Credit Corporation, the certificate of interest issued by the Commodity Credit Corporation which evidences the deposit of such notes may be accepted as security for an advance made to a member bank under this subsection.'

Unanimous approval was also given to the following letter to the Presidents of all Federal Reserve Banks:

"Reference is made to the Board's letter of January 7, 1949, concerning the discounting of notes evidencing loans made pursuant to commodity loan programs of the Commodity Credit Corporation and the acceptance of such notes as security for advances to member banks by Federal Reserve Banks.

"Enclosed herewith is a copy of an amendment to Regulation A relating to this subject which has been adopted by the Board effective today. Please have the necessary copies of the amendment printed for distribution in your district.

"You will note that subsection (h) of section 1 of Regulation A has been amended to provide that the requirement that a note be negotiable in order to be discounted shall not apply to the notes in question and that subsection (a) of section 2 has been amended to provide for the use of certificates of interest such as are issued by the Commodity Credit Corporation under its cotton loan program as security for advances made to member banks under that subsection. Also, the provision of subsection (h)

2/17/49

-4-

"of section 1 waiving the negotiability requirement in the case of any note evidencing a loan which is the subject of a guarantee or commitment made pursuant to Executive Order No. 9112 or the Contract Settlement Act of 1944, has been eliminated because it is now obsolete.

"The amendment to subsection (h) of section 1 contemplates that notes evidencing loans made pursuant to commodity loan programs of the Commodity Credit Corporation may be both discounted and accepted as security for advances. The note forms prescribed by the Commodity Credit Corporation provide for indorsement without recourse, whereas the requirement of the law and Regulation A that a note discounted for a member bank be indorsed by the bank apparently contemplates indorsement with recourse. It does not appear practicable to deal with this problem by changing the form of indorsements on the notes, but the Board believes that the requirements with respect to indorsement in connection with the discounting of the notes will be satisfied by a Reserve Bank obtaining from the member bank discounting such notes a separate agreement to the effect that, notwithstanding the form of indorsements on the notes, the member bank guarantees the payment of the notes. If the notes are accepted as security for advances, rather than discounted, such an agreement will not be necessary.

"To handle this paper with full protection of the Commodity Credit Corporation's commitment to purchase, it will be necessary for a Federal Reserve Bank to enter into an agreement with the Commodity Credit Corporation. The suggested form of agreement which accompanied the Board's letter of January 7, 1949, has been revised in the light of comments received from the Federal Reserve Banks and representatives of the Commodity Credit Corporation. Enclosed herewith is a copy of the revised form of agreement, which we have been advised is acceptable to the Commodity Credit Corporation. Any Federal Reserve Bank which desires to enter into such an agreement with the Commodity Credit Corporation should execute this agreement in duplicate and forward it to Mr. K. A. Brasfield, Director, Fiscal Branch, Production and Marketing Administration, Department of Agriculture, Washington 25, D. C., for execution by the Commodity Credit Corporation. One copy of the executed agreement will be returned to the Reserve Bank."

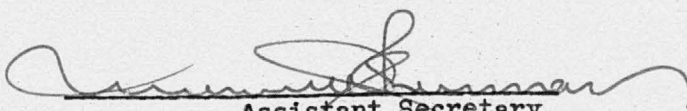
2/17/49

-5-

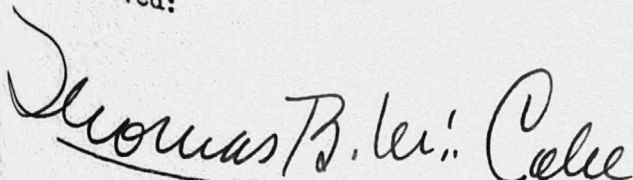
The following statement for publication in the Federal Register was also approved unanimously:

"In order that notes evidencing loans made pursuant to commodity loan programs of the Commodity Credit Corporation shall not be subject to the requirement that a note be negotiable in order to be discounted by a Federal Reserve Bank, that such notes may be made eligible for discount, and that such notes and certificates of interest therein may be made acceptable as security for advances to member banks by Federal Reserve Banks, Part 201 is amended, effective February 17, 1949,"

"The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found as stated in section 262.2(e) of the Board's Rules of Procedure, and especially because in connection with this amendment which relieves certain restrictions such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."


Assistant Secretary.

Approved:


Chairman.