

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 29, 1949.

PRESENT: Mr. McCabe, Chairman  
 Mr. Eccles  
 Mr. Szymczak  
 Mr. Draper  
 Mr. Clayton

Mr. Carpenter, Secretary  
 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 March 28, 1949, were approved unanimously.

Memorandum dated March 29, 1949, from Mr. Millard, Director of the Division of Examinations, recommending increases in the basic annual salaries of the following employees in that Division, effective April 3, 1949:

| <u>Name</u>     | <u>Title</u>                | <u>Salary Increase</u> |            |
|-----------------|-----------------------------|------------------------|------------|
|                 |                             | <u>From</u>            | <u>To</u>  |
| Esther Severud  | Secretary                   | \$3,476.40             | \$3,601.80 |
| James V. Fisler | Asst. Fed. Res.<br>Examiner | 3,852.60               | 3,978.00   |

Approved unanimously.

Memorandum dated March 28, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Alfred W. Minutolo as an operator (I.B.M.) in that Division, with basic salary at the rate of \$2,974.80 per annum, effective as of the date upon which he enters upon the performance of his duties

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after having passed the usual physical examination.

Approved unanimously.

Memorandum dated March 28, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Lulu A. Sinclair as a cafeteria helper in that Division on a temporary basis for a period of two months, with basic salary at the rate of \$2,020 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

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

"In accordance with the request contained in your letter of March 24, 1949, the Board approves the designation of W. C. Burson of the Birmingham Branch as a special assistant examiner for the Federal Reserve Bank of Atlanta."

Approved unanimously.

Letter to Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in Mr. Gilbert's letter of March 24, 1949, the Board of Governors approves, effective April 1, 1949, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

| <u>Name</u> | <u>Title</u>                                   | <u>Annual Salary</u> |
|-------------|--|----------------------|
| E. G. Hudel | Head Office<br>Assistant Federal Reserve Agent | \$6,000              |

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| <u>"Name</u>     | <u>Title</u>                              | <u>Annual Salary</u> |
|------------------|---|----------------------|
|                  | <u>Head Office</u>                        |                      |
| J. M. Ashley     | Alternate Assistant Federal Reserve Agent | \$4,100              |
| Edward Price     | Alternate Assistant Federal Reserve Agent | 3,700                |
|                  | <u>El Paso Branch</u>                     |                      |
| C. Hadley Fraser | Federal Reserve Agent's Representative    | 4,380                |
|                  | <u>Houston Branch</u>                     |                      |
| John A. Boyd     | Federal Reserve Agent's Representative    | 4,700                |
|                  | <u>San Antonio Branch</u>                 |                      |
| G. W. Stover     | Federal Reserve Agent's Representative    | 4,650"               |

Approved unanimously.

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

"Relet March 24. In view your recommendation Board approves temporary establishment and operation of branch at Geneva Avenue and Rio Verde Street, San Mateo County, California by 'American Trust Company', San Francisco, California, for period of April 9 to 12, 1949, inclusive, in connection with Junior Livestock Exposition provided Counsel for Reserve Bank is satisfied as to the legal aspects involved."

Approved unanimously.

Letter to the "National Bank of Tulsa", Tulsa Oklahoma, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority 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

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"which come into competition with national banks are permitted to act under the laws of the State of Oklahoma, 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.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to Mr. J. R. Dunkerley, Deputy Manager, The American Bankers Association, 12 East 36th Street, New York, New York, reading as follows:

"For some time the Board of Governors has had under consideration the question whether the definition of the term 'savings deposit' in the Board's Regulations D and Q should be amended to permit the adoption by member banks of a plan proposed by the Burroughs Adding Machine Company for the handling of savings accounts without the use of pass books.

"In a letter addressed by you to the Board's General Counsel, Mr. George B. Vest, on November 29, 1948 regarding this subject, you stated that your Association was engaged in a study of the merits of this plan; and, as indicated in Mr. Vest's reply, the Board would be interested in obtaining the views of your Association in this matter.

"Accordingly, before the Board takes any action on the question whether it is advisable to amend its Regulations in the manner above suggested, we will appreciate it if you will advise us of any views which may have been expressed by your Association with respect to the merits of the proposed plan."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This refers to your letter of March 16, 1949, with which you enclosed a draft of legislation entitled 'To amend the Commodity Exchange Act, as amended'.

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"The Board is in sympathy with the purposes of the draft and would have no objection to the enactment of legislation along the general lines of that proposed. Considerations affecting commodity margin requirements differ in several respects from those relating to the securities margin requirements administered by this Board. There are, however, important relationships between commodity margin requirements and the responsibilities of this Board, and in the administration of such requirements appropriate inter-agency consultation and cooperation will be desirable with a view to achieving overall policies having a maximum of consistency and effectiveness.

"A technical feature of the provisions relating to commodity margin requirements may deserve mention. The proposed new section 4 j(1) would direct the Secretary of Agriculture to prescribe 'the minimum margin to be initially required and deposited and subsequently maintained' in connection with purchases or sales of commodity futures. It would also authorize him to provide for adjustments, including 'appropriate provision with respect to the carrying of under-margined accounts for limited periods and under specified conditions.' In the administration of margin requirements on securities, it has been considered desirable to omit any requirement that commitments be closed out merely because of adverse market movements, and to leave that phase of the maintenance requirements to the decision of the individual brokers and exchanges. A similar rule probably could be applied, if found desirable, under the proposed section 4 j(1). However, the point might be somewhat clearer if the words 'for limited periods and' were deleted from the phrase quoted above."

Approved, Mr. Eccles not voting.

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

"Reference is made to the Board's letter of November 5, 1948 (S-1058 - F.R.L.S. #8500.1) concerning the Regulation W enforcement report F.R. 639.

"The recent regional conferences on Regulation W procedures disclosed that certain difficulties are encountered in classifying some of the information called

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"for by the report form. Suggestions were made by some of the Reserve Banks for clarification of (1) what constitutes an investigation, (2) what circumstances distinguish Class A violators from less important classes of violators whose violations appear to be 'inconsequential', and (3) what constitutes an 'other call'. Those suggestions were discussed at each of the conferences, since the questions arose during the first one.

"In view of questions (2) and (3) form F.R. 639 has been revised in the following respects in accordance with the suggestions made:

1. Footnote '1' on the face of the form has been eliminated.
2. Explanation '9' on the reverse side of the form has been changed to read:

'Number of Registrants classified as Class "A" violators because of investigations made during month. A Class "A" violator is one with respect to whom re-investigation has been scheduled by reason of the number or type of violations disclosed upon investigation.'

"Question (1) relates to item I-A-2 of the 'Outline of Enforcement Program under Regulation W' attached to the Board's letter of September 22, 1948 (S-1041 - F.R.L.S. #8500). At some of the recent conferences the view was advanced that any Regulation W call during which records were reviewed should be considered an investigation even though the review was made simply to disprove or to substantiate a proprietor's statement that no instalment credit was extended. Some of the Reserve Banks were following that practice in completing form F.R. 639 and others were not, with the result that the number of 'investigations' and 'other calls' reported were not comparable for all Banks.

"In order that the ratio of violators to investigations, as computed by the Board and furnished to the Reserve Banks each month, may reflect a percentage uniformly based only on investigations of businesses where instalment credit is extended, only investigations of Registrants extending instalment credit should be reported as such. Each investigation should include a spot check of a representative number of recent instalment credit transactions where it is possible to do so. It is realized that in some cases of incomplete records this may be impossible during the current investigation but, nevertheless, if the business is a Registrant and the purpose of the call is to conduct an investigation of records and procedures in connection with transactions subject to Regulation W, it should be reported as an

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"investigation.

"The changes herein described should be made effective with your regular report for the month of March. A supply of the revised form F.R. 639 is enclosed."

Approved unanimously.

Letter to Mr. J. H. Hahne, President, Jack Hahne Motors, 6001 Van Nuys Boulevard, Van Nuys, California, reading as follows:

"Thank you for your letter of March 17 concerning the effect of Regulation W on the automobile business.

"We note your proposal that the regulation should be amended so as not to apply to the instalment sales of automobiles or that, at least, the maximum maturity for automobile sales should be 24 months on new cars selling under \$2,000 and 30 months on new cars selling for over \$2,000.

"There are reasons, other than the restraint exerted by Regulation W, which are currently affecting sales volume. You mention the prices of new cars today when you refer to cars selling for under and over \$2,000. Higher postwar prices and the resulting higher finance and insurance charges are all reflected in the amount of the monthly instalments and the longer the terms the greater are those costs which must be added to the purchase price of a car when it is sold on time. We have had high production of automobiles in the postwar period and as more and more people obtained cars, the remaining prospective buyers have had a constantly expanding price range in new or late model used cars from which to choose. Naturally the higher priced cars will feel this slackening demand first.

"You state that the regulation is no longer needed, that '... new car dealers are sufficiently wise in matters of credit to extend proper credit to those people who in their opinion can pay for their new car.' It is not the purpose of Regulation W to insure that each individual extension of credit is sound. That cannot be accomplished by regulation, but must depend on the creditor. The regulation is concerned with the aggregate expansion of such credit because of its effect on the economy.

"As mentioned in our letter of March 10, the Board is watching the economic situation generally as well as trends in the production and marketing of automobiles and other

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"consumers' durable goods. We have, as you suggest, conferred on several occasions with the National Automobile Dealers Association and others in the industry in the selling, financing and manufacturing sectors. Their counsel and the information they furnish is considered, along with all of the other information we have, in our study of the subject."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"Receipt is acknowledged of your letter of March 11, 1949, enclosing a copy of a proposed State Department report on S. 13 and S. 286, and requesting advice as to our views concerning these bills which would remove restrictions upon trading in gold in the United States.

"These bills and related proposals have been discussed with representatives of the State and Treasury Departments and further study and discussion of these matters by the interested agencies is contemplated. In the circumstances, it appears desirable to delay our reply to your letter and, since the State Department representatives concur, we assume that this will be satisfactory to you."

Approved unanimously.

Letter to the Honorable Burnet R. Maybank, Chairman of the Committee on Banking and Currency, United States Senate, reading as follows:

"This refers to your letter of January 14, 1949, regarding bill S. 80, 'To increase the insurance protection of depositors in federally insured banks from \$5,000 to \$15,000.'

"From time to time suggestions have been made with respect to changes in deposit insurance coverage, reduction or elimination of assessments on insured banks, and revision of the basis for such assessments. These are interrelated questions and it is the view of the Board that it would not be advisable to consider action with respect to a change in the insurance coverage without due regard for the other questions.

"The Federal Reserve System has a very substantial interest in this matter because approximately 85 per cent of the total deposits in insured commercial banks of the United

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"States are in member banks and, since the assessments are made on the basis of total deposits, these member banks pay about 85 per cent of the total amount of the assessments received from insured commercial banks by the Federal Deposit Insurance Corporation. Although the insurance assessments are based upon total deposits, less than 50 per cent of these deposits are in amounts of \$5,000 or less, even though 95 per cent of the number of deposit accounts are insured. Moreover, over two-thirds of the deposits of insured commercial banks are offset by cash or Government securities which are the equivalent of cash, leaving less than one-third as what may be characterized as risk assets. These, however, are very unevenly distributed among the insured banks, some having more than one-third, while others have less. It is apparent, therefore, that changes in either insurance coverage or the amount of the assessment or the basis for such assessment can have very important effects on banks which are members of the Federal Reserve System.

"It may be added that the assessments at the current rate aggregate substantially more than \$100 million a year and that, without these assessments, the income from investments of the Federal Deposit Insurance Corporation in Government securities meets all expenses and leaves a margin for losses. The contributions to capital made by the Treasury and the Federal Reserve Banks aggregating \$289,000,000 have been repaid and the remaining surplus of the Corporation by the end of this year at the current rate will be around \$1,200,000,000.

"The Board believes that the situation now calls for a reappraisal of the assessments and insurance coverage of the Federal Deposit Insurance Corporation and to that end it has instituted a careful study with a view to placing itself in position to respond to any further inquiry that the Committee may wish to make."

Approved unanimously, together with  
letter to Mr. Roger W. Jones, Assistant  
Director, Legislative Reference, Bureau  
of the Budget, reading as follows:

"Referring to your letter of March 24, 1949, with respect to S. 80, a bill 'To increase the insurance protection of depositors in federally insured banks from \$5,000 to \$15,000', we are enclosing herewith four copies of our letter of this date addressed to Senator Burnet R. Maybank, Chairman, Senate Committee on Banking and Currency,

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"concerning this bill. You will observe that our letter expresses no opinion as to the merits of this proposal and states that we wish to give it and related matters further study."

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

"This letter is in confirmation of our telephone conversation today in which I advised that, in response to the request contained in your letter of March 23, 1949, the members of the Board who are in Washington at the time will be pleased to meet with the members of the executive committee of your Bank on April 18, 1949, for such informal discussion of salaries of officers and such related questions as the Board and committee may wish to consider.

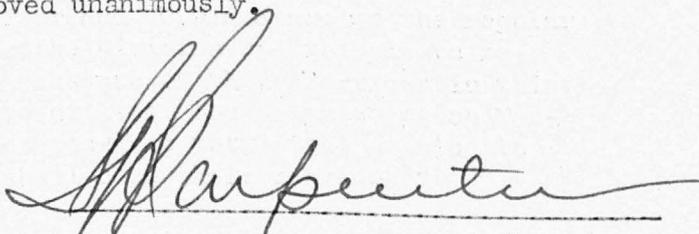
"The Board has suggested 10:30 a.m. as the time for the meeting with the thought, that as mentioned in your letter of March 24, it will be concluded in time for you to catch the 1:25 p.m. plane."

Approved unanimously.

Memorandum dated March 29, 1949, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the April issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Margin Requirements for Purchasing Securities  
Supplements to Regulations T and U.

Approved unanimously.



Secretary.

Approved:



Chairman.