

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 5, 1949. The Board met in the Board Room at 10:40 a.m.

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

Reference was made to a memorandum from Mr. Draper dated March 22, 1949, with respect to possible legislation regarding financial assistance by Federal Reserve Banks to business enterprises. The memorandum stated that in its letter to the Director of the Bureau of the Budget on November 30, 1948, the Board called attention to the fact that a bill, S. 408, providing for guarantees by Federal Reserve Banks of loans to business enterprises had been reported favorably by the Senate Banking and Currency Committee in the 80th Congress and that the subject matter was under review by the Board for the purpose of determining what proposals would be appropriate for submission to the Congress at the present session. The memorandum raised the question whether the Board desired to

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propose any legislation on this subject to the present Congress either on a standby basis or otherwise and, if so, whether it should recommend a bill similar to S. 408 providing for guarantees by Federal Reserve Banks of business loans made by chartered banking institutions or whether there should also be included a recommendation for the making of direct loans by Federal Reserve Banks to business enterprises.

There was a discussion of the need for legislation on this subject during which the suggestion was made that a memorandum be prepared outlining the origin and operation of the present provisions in section 13b of the Federal Reserve Act, the development of the proposed legislation contained in S. 408, and the reasons for and against having authority to make direct loans and to guarantee loans made by chartered banks, with a view to consideration of the matter by the Board for the purpose of exploring the procedure that might be followed if legislation in this field is desired in the future.

Following the discussion, the Legal Division was requested to prepare for the Board's consideration a memorandum along the lines suggested.

Chairman McCabe stated that Senator Maybank, Chairman of the Senate Banking and Currency Committee, had told him that it did not now appear likely that it would be possible to consider legislation on supplemental reserve requirements or consumer

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credit controls until at least early in May. Chairman McCabe also said that he would like to take such steps as might be necessary to reappraise the situation in the light of existing business and credit conditions and the attitude of the Congress toward possible legislation in these fields.

Mr. Vardaman expressed the view that he would oppose an extension of the authority for consumer credit regulation unless authority were also granted for supplemental reserve requirements and that he felt authority for supplemental reserve requirements should not be granted unless it covered all insured banks.

Mr. Draper expressed the view that he would prefer to have permanent authority for consumer credit regulation but that it might be more practicable to seek an extension of the present authority either with or without continued authority for supplemental reserve requirements.

Mr. Clayton stated that he felt the authority for consumer credit regulation should be placed on a permanent basis but that if this were not possible he would favor a continuation of the present authority for a year or two, except that he would like to have the new legislation change the present basis for that authority so that it would not be only for the purpose of meeting inflationary conditions.

With respect to reserve requirements legislation, Chair-

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man McCabe raised the question whether the Board should insist upon authority to increase reserves against demand and time deposits by 10 and 4 per cent, respectively, stating that he felt if authority could be obtained for continuing the present provision permitting increases of 4 and 1-1/2 per cent, respectively, against demand and time deposits, with such authority applicable to all insured banks, the results would represent a major accomplishment.

Mr. Clayton stated that he felt it would be wholly unrealistic to make a fight for the 10 and 4 per cent authority and that in the last analysis he would be willing to accept authority covering only that portion of the 4 and 1-1/2 per cent which had been put in effect by the Board up to the present time. He added that the most important thing was to avoid having the present reserves required under the supplemental authority released to the market by expiration of the law on June 30 rather than at a time when the Board felt such reserves should be released. Mr. Clayton also stated that he felt strongly that the authority to impose supplemental reserves should be extended to cover nonmember insured banks, but that he would rather have it renewed in its present form than to have it expire.

Mr. Draper stated that he would be in favor of authority for supplementary reserves on the basis of 2 per cent on demand deposits and 1-1/2 per cent on time deposits without including

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nonmember insured banks if it was impossible to get authority in any other form.

Chairman McCabe said that he would inform the other members of the Board of any further discussions of the matter that he might have so at the proper time the Board could decide the course that should be followed in connection with the legislation.

There was also a discussion of the provisions that might be included in the legislation with respect to enforcement of supplemental reserve requirements required of nonmember insured banks but no conclusions were reached.

Mr. Young left the meeting at this time.

Mr. Clayton referred to the discussion at the meeting of the Board on March 28, 1949, with respect to a proposed change in rules and regulations of the Federal Home Loan Bank System which would permit the use of the term "Federal Savings Association" and "savings account" by savings and loans associations. He stated that the Federal Deposit Insurance Corporation had indicated that it would write a letter opposing the issuance of such rules, and that Mr. Robertson, Deputy Comptroller, was interested in the matter but did not indicate whether the Comptroller would take a position on it. Mr. Clayton also referred to the brief submitted by the American Bankers Association opposing the adoption of the proposed rules, and to a letter from Senator Robertson,

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Chairman of the Banking and Currency Committee's Subcommittee on Federal Reserve legislation, to Mr. Divers, Chairman of the Home Loan Banking System which contained the statement that "when the Congress specifies a name for a public or quasi-public organization no Federal agency has the power to change it."

Mr. Clayton also stated that in accordance with the action at the meeting on March 28, 1949, a draft of letter to the Home Loan Bank Board had been prepared and that he would recommend that it be approved.

The letter was read and approved unanimously in the following amended form and mailed under date of April 7, 1949, to the Honorable William K. Divers, Chairman, Home Loan Bank Board:

"We have observed in the March 11, 1949 edition of the Federal Register, commencing on page 1101, the proposed amendments to the rules and regulations for the Federal Savings and Loan System. The matter has also been brought to our attention by the American Bankers Association and others.

"The Board of Governors has no desire to see the savings and loan associations handicapped in their legitimate development and recognizes their contribution to the development of thrift and home ownership. However, if we are to avoid confusion in the fields of banking, savings and investment, it is necessary that the various types of institutions operating in these fields under Federal statutes or supervision be kept within their respective areas.

"The terms 'Federal Savings Association' and 'savings account' are defined in the proposed amendments to the regulations and are in substitution for the terms 'Federal Association' and 'share accounts' which were used in previous regulations of the Federal Savings

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"and Loan System. We feel that the adoption of these terms could only result in greater confusion in the public mind as to the nature of the share accounts sold by savings and loan associations to their shareholders and would lead to the general impression that these accounts are substantially the same as savings accounts in savings and commercial banks and subject to substantially the same degree of liquidity and terms of withdrawal. This is another phase of the problem that has arisen from time to time in the past in connection with legislative proposals affecting the home loan bank system which would tend to change the fundamental character of savings and loan associations which distinguishes them from savings and commercial banks.

"The statute providing for the organization of Federal Savings and Loan Associations provides that these associations shall raise their capital only in the form of payments on such shares as are authorized in their charter and prohibits such associations from accepting deposits or issuing certificates of indebtedness except for such borrowed money as may be authorized by regulations of the Home Loan Bank Board. It seems clear therefore that it was the intent of Congress that the funds of these associations should be obtained not from deposits but from the issuance of shares and any reference to these shares as 'savings accounts' would seem to raise an implication that these accounts would be the same as or similar to ordinary savings deposits in a savings or commercial bank.

"In connection with the use of the term 'Federal Savings Association' the statute specifically provides that such associations shall be known as 'Federal Savings and Loan Associations', and the proposed change in terminology does not appear to us to be consistent with the intent of Congress in this respect. In this connection also we note that bills were introduced in the 75th Congress to authorize such associations to be known as 'Federal Savings Associations', but Congress did not enact such legislation. The Board of Governors feels that the use in the regulations of this term which Congress has failed to sanction will serve to encourage such associations and others to use the term in advertising and elsewhere, thereby tending to confuse or lead the public into the belief that such associations possess the liquidity and have other characteristics of savings banks.

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"In the circumstances, we hope that your Board upon further reflection in this matter will decide not to incorporate into its regulations the proposed terminology referred to above."

Reference was made to the discussion at the meeting on March 23, 1949, of the request of Mr. Russell G. Smith, Executive Vice President of the Bank of America N.T. & S.A., to come to Washington to discuss with representatives of the Board the question of that bank's applications for permission to establish three branches in Germany. Chairman McCabe suggested that Mr. Szymczak and Mr. Clayton meet with Mr. Smith and such members of the staff as they might select and that Mr. Clayton get in touch with Mr. Szymczak to arrange a date for the meeting. He also suggested that Mr. Clayton prepare an outline of the matters to be discussed with Mr. Smith and that it be submitted to the Board for consideration.

Chairman McCabe's suggestion was approved unanimously.

Mr. Vardaman referred to the action taken on March 28, 1949 reducing margin requirements in Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and inquired whether consideration was given at that time to exempting specialists' accounts from the regulations. He

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added that he felt action with respect to this and other technical amendments should be taken at an early date and suggested that the matter be considered at a meeting on April 19, 1949.

Mr. Vardaman's suggestion was approved unanimously.

Mr. Clayton withdrew from the meeting at this time.

Mr. Morrill referred to the discussion between Chairman McCabe and Mr. Peyton, President of the Minneapolis Bank, and Mr. Gidney, President of the Cleveland Bank, on February 28, 1949, with respect to inclusion in their 1949 budgets of amounts for movie projects, and stated that Mr. Peyton had called him on the telephone yesterday and would like to have Mr. Powell, First Vice President of the Minneapolis Bank, come to Washington next week to show the film of the Minneapolis Bank which was made in 1935.

It was agreed that Mr. Peyton should be informed that the Board would be glad to have Mr. Powell show the film to members of the Board at 10:00 a.m. on Tuesday, April 12, 1949.

Mr. Vardaman referred to the discussion at the meeting on January 4, 1949 of the action taken with respect to the United Bank and Trust Company of St. Louis, Missouri, and the decision to send Mr. Millard, Director of the Division of Examinations, to St. Louis to look into the manner in which the matter had been handled. He also stated that following Mr. Millard's return and

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report on the matter, he (Mr. Vardaman) prepared a memorandum which he would like to have placed in the minutes. The memorandum is as follows:

"Mr. Millard's memorandum of February 11 is interesting and raises certain points in my mind to which I would like to call the Board's attention:

"1. Mr. Millard's statement reveals that the examiners of the St. Louis Federal Reserve Bank did not discover the error, but that it was brought to Mr. Peterson's attention by an officer and director of the United Bank, who called at Peterson's office specifically for this purpose. The failure of the St. Louis Federal Reserve examiners to discover a bad banking practice as obvious as this raises a question in my mind as to the thoroughness of the Federal Reserve's examination practices. The account in question has been on the books of the member bank for a number of years and there has been no effort at concealment or deception. The account was in the name of an officer of the member bank followed by the word 'trustee'. One wonders why the examiners did not investigate the account if they had followed the time-old custom of thumbing through all accounts in a bank to catch those in the names of officers or directors; or if they followed the likewise well established custom of asking the member bank at the inception of the examination to furnish a list to the examiners of all accounts on their bank's books in the names of officers or directors of the bank under examination and of other banks in the same city.

"2. The record does not show that the United States Attorney's office was advised, when this matter was reported to that office, that the account had been brought to the attention of the Federal Reserve Bank's officials by an officer and director of the member bank; that the subject account was not 'discovered' by the examiners; and that at no time was there any effort on the part of the member bank at concealment or deception; nor was there any evidence of criminal intent.

"On the other hand, the inference to be drawn from the communication sent to the United States Attorney by the Federal Reserve Bank of St. Louis, and also by the

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"communication sent to this Board by the St. Louis Federal Reserve was that the Federal Reserve examiners had discovered the item and had really 'caught' the bank doing something improper and probably dishonest. This is borne out by the fact that when the matter was discussed with the Board here, Chairman McCabe was so convinced that the Federal Reserve had 'caught' a miscreant that he suggested that the examiner in question (Mr. Chapman) be complimented for his shrewdness and efficiency in 'discovering' the questioned account.

"3. It is to be hoped that Mr. Millard is correct in his assumption that there is no feeling of prejudice toward the United Bank on the part of certain personnel of the St. Louis Bank; but it does not seem to me that such assumption is warranted by the way the St. Louis Federal Reserve has handled this matter:

(1) The St. Louis Federal Reserve failed to report all the true circumstances to the United States Attorney in St. Louis.

(2) The St. Louis Federal Reserve failed to report all the true circumstances to this Board.

"4. I do not want it considered that I have any patience with the member bank for its conduct in this case. However, I think the incident is much more important than the individuals or the one bank involved, and my principal object in calling it again to the Board's attention is to show what I believe to be a fundamental weakness in the St. Louis Federal Reserve's concept and application of its regulatory powers, particularly with reference to bank examinations. I am not sure but that this erroneous concept exists in other banks in the system.

"In this instance, we have an officer and director of a member bank visiting the office of the Federal Reserve Bank and asking for advice and counsel with reference to a questionable accounting practice being followed in the member bank. In response to this visit, the Federal Reserve Bank made its examinations and reported the matter to this Board and to the United States Attorney as though the member bank had been 'caught' and was guilty of some concealed improper action and criminal intent. The record does not reveal the fact that the member bank was doubtful itself of the propriety of its practice and had come to the supervisory authorities seeking instruction, advice and guidance.

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"I recommend strongly that the Board learn more about the concept and practice of the respective Federal Reserve Banks in their regulatory powers, especially that with reference to examination, and that the Board endeavor to satisfy itself that steps are taken in the respective Federal Reserve Banks to reduce to a minimum the probability of a repetition of such incidents as this."

Mr. Thomas entered the meeting at this time.

Mr. Thomas stated that Mr. Crena de Iongh, Treasurer of the International Bank for Reconstruction and Development, had asked informally that Mr. Furth, an economist in the Division of Research and Statistics, accompany him on a trip to Europe to assist in a study of developments in Germany and contiguous countries. Mr. Thomas also said that if Mr. Furth made the trip it would be of value to the Board in the work of the International Section and that previously some consideration had been given to sending Mr. Furth to Germany this year. He added that Mr. de Iongh indicated the trip would last from approximately the middle of May until the middle of July, and that the International Bank had offered to pay Mr. Furth's expenses and would also be willing to pay his salary during that period.

Following a discussion it was agreed unanimously that Mr. de Iongh should be informed that if the International Bank made a formal request for Mr. Furth's services as outlined, the Board would look with favor upon the request.

At this point Messrs. Riefler, Thomas, Vest, and Leonard

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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 March 29, 1949, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 31 and April 1, 1949, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated April 5, 1949 from Mr. Leonard, Director of the Division of Bank Operations, reading as follows:

"For the reasons set forth in the following pages, it is recommended that the Board obtain condensed reports of condition of branches of State member banks at the forthcoming mid-year or year-end and at regular annual or biennial intervals thereafter, provided corresponding reports are obtained of branches of national banks and insured nonmember banks respectively.

"It is further recommended that we be authorized to negotiate with the offices of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Bureau of the Budget with respect to the items to be used, their phraseology, arrangement on the form, related instructions, and whether the reports should be obtained at mid-year or end-of-year calls annually or biennially.

"Two alternative forms are attached as a basis of discussion among the agencies. They are somewhat similar to the forms used in the last report of this type in June 1941; the similarities and differences are detailed in a memorandum dated September 22, 1948 (File 430.16)."

Approved unanimously.

Memorandum dated April 4, 1949, from Mr. Leonard, Director of the Division of Bank Operations, reading as follows:

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"In order to improve the consumer credit statistics, it is recommended that the Board approve a revision of present item 7(e) of Schedule A in the mid-year report of condition of State member banks to show separately loans of \$3,000 or \$5,000 or less, and loans of more than that amount, provided a corresponding revision is made in the forms obtained from national banks and insured nonmember banks.

"It is further recommended that we be authorized to negotiate with the offices of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and with respect to the amount at which the split should be made, the phraseology, arrangement on the form, and related instructions. A draft of the proposed condition report is attached.

"In a letter dated January 13, 1949 and accompanying memorandum, Mr. Theodore M. Beckman, Chairman, Committee on Consumer Credit Statistics, a trade-inspired committee, pointed out that single-payment loans to individuals, as included in the Board's consumer statistics, contained a large volume of loans that were not of a consumer nature.

"The Board's Division of Research and Statistics on March 2, 1949 requested the Federal Reserve Banks to make a sample survey of member banks to determine whether an undue proportion of nonconsumer loans was included in the single-payment item. The results of this survey indicate that although a majority of the loans are of a consumer nature, there is a relatively large number of loans of large amount which are not, with the result that possibly two-thirds of the dollar amounts included in item 7(e) are of a nonconsumer nature. The nonconsumer type of loans correctly classified against this item includes advances in connection with the settlement of estates and relatively large loans to well-to-do individuals for which the purpose of the loan was unknown. Incidentally, the survey revealed that a number of the loans may have been misclassified, and should have been reported as commercial and industrial loans or loans to farmers, etc.

"After the figures have been tabulated segregating the larger and smaller single-payment loans, it is contemplated that the latter only will be included in the Board's series of consumer credit statistics and back figures will be revised."

Approved unanimously.

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Memoranda from the heads of the divisions indicated below, recommending that resignations from the following members of the staff in those divisions be accepted, to be effective, in accordance with requests of the resigners, at the close of business on the dates indicated:

<u>Date of Memo.</u>	<u>Name</u>	<u>Title</u>	<u>Effective Date</u>
<u>OFFICE OF SECRETARY</u>			
4/5/49	Mrs. Mildred D. Clement	File clerk	4/4/49
<u>LEGAL DIVISION</u>			
4/4/49	Mrs. Esther Knox	Stenographer	5/6/49
<u>DIVISION OF RESEARCH AND STATISTICS</u>			
4/4/49	Miss Helena C. Knouse	Clerk-stenographer	4/20/49
<u>DIVISION OF ADMINISTRATIVE SERVICES</u>			
4/1/49	Miss Jane F. Hamill	Cafeteria helper	4/1/49

Approved unanimously.

Letter to the "First National Bank in Council Bluffs", Council Bluffs, Iowa, 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 which come into competition with national banks are permitted to act under the laws of the State of Iowa, 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.

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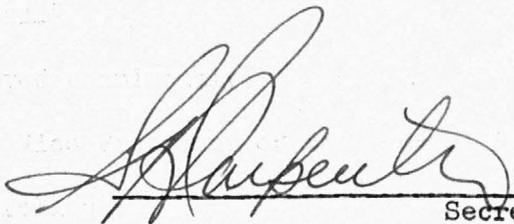
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Letter to "The East Texas National Bank of Palestine",
Palestine, Texas, reading as follows:

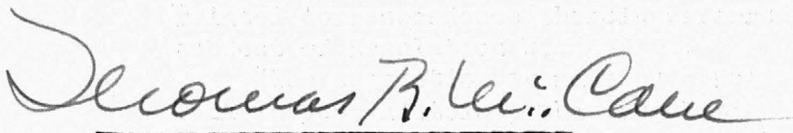
"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, 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.


Secretary.

Approved:


Chairman.