

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 21, 1949. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Szymczak  
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. Nelson, Director of the Division of  
Personnel Administration

Before this meeting there had been sent to each member of the Board a memorandum from Mr. Nelson dated April 14, 1949, with respect to proposed changes in the Retirement System of the Federal Reserve Banks, together with a copy of the report of the Conference of Chairmen of the Reserve Banks dated April 14, 1949, submitting the recommendations of the Conference as to changes that would be desirable.

Mr. Szymczak referred to the discussions at the meetings on March 4 and 8, 1949, and suggested that there be a meeting of the Board with representatives of the Presidents' Conference and the Board of Trustees of the Retirement System to consider the question of investment policy so that a decision could be reached as to the procedure to be followed in making effective the liber-

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alized rules applicable to the benefits of the Retirement System, which had been considered informally on March 4 and 8, at which time it was the consensus that the proposed changes should be approved if a satisfactory understanding could be reached with the Trustees of the Retirement System with respect to investment of retirement system funds.

In this connection, reference was made to the February 24, 1949 report of a special committee of the Presidents' Conference to study investment policy of which Mr. Earhart, President of the Federal Reserve Bank of San Francisco, is Chairman, and at Chairman McCabe's request Mr. Carpenter read portions of the report which was to the effect that if earnings could ultimately be brought up to an average of approximately three per cent, that would be the best solution of the problem.

In connection with a reference to the extent to which the benefits provided by the retirement system are guaranteed to employees, there was a general discussion of what employees are told they will receive upon retirement and whether they now regard the benefits as being guaranteed. There was also a general discussion of the desirability of continuing the present policy or adopting the policy presented to the Presidents on December 9, 1947.

The discussion turned to consideration of the proposed

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revision in the rules as suggested by the report of the Conference of Chairmen, during which Mr. Nelson reviewed various proposals that had been made with respect to placing the standard retirement allowance on a straight life basis rather than on the present cash refund basis. It was the consensus that it would be desirable to bring about the use of the straight life settlement basis as the standard retirement provision, but no conclusion was reached as to whether such benefits should be made mandatory if individuals accepted the revisions in the rules proposed by the Conference of Chairmen.

There was also discussion of the suggestion made by the Chairmen that allowances of members of the "Bank Plan" already retired be supplemented to an amount equivalent to that which would have been paid had they been retired under the rules with the suggested changes, and Mr. Nelson stated that the Division of Personnel Administration recommended such benefits be supplemented with a maximum limitation of \$400 per annum in the increase of the allowance of a member already retired. It was the consensus that such a limitation should be made.

Reference was also made to a memorandum from Mr. Nelson dated April 15, 1949, with respect to the suggestion at the meeting on March 8, 1949, that a minimum normal retirement allowance of 25 per cent of the final average salary be provided for in



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the rules and regulations of the Retirement System. Mr. Nelson's memorandum recommended that such a minimum not be adopted. In discussing the question, it was the view of the members of the Board that a strong recommendation should be made by the Board to the trustees of the Retirement System that a minimum allowance of 25 per cent of final average salary should be provided for in the rules and regulations of the Retirement System applicable to the Bank Plan, except that the allowance should not be less than that provided in Section 3(1)(b) of the Rules and Regulations of the Retirement System. It was understood that Mr. Nelson would prepare a memorandum for the consideration of the Board covering costs and other factors which would be involved in applying such a rule to the Retirement System.

During the foregoing discussion Mr. Carpenter withdrew from the meeting.

The meeting recessed and reconvened at 2:40 p.m. with the same attendance as at the close of the morning session.

There was a further discussion of the proposed changes in the benefits of the Retirement System, and reference was again made to Mr. Szymczak's suggestion that there be a meeting of the Board with representatives of the Retirement System next week for the purpose of discussing investment policy. Mr. Szymczak suggested that Mr. Davis, Chairman of the Presidents' Conference,



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Mr. Earhart, Chairman of the Presidents' Conference Special Committee on Investment Policy, Mr. Leedy, Chairman of the Board of Trustees of the Retirement System, Mr. Peyton, Chairman of the Executive Committee of the Retirement System, Mr. Young, Chairman of the Investment Committee of the Retirement System, and Mr. Rounds, Chairman of the Retirement Committee of the Retirement System, be asked to meet with the Board at 10:30 a.m. on Thursday, April 28, 1949.

Following a discussion, Mr. Szymczak's suggestion was approved unanimously.

In this connection, Chairman McCabe suggested the possible desirability of having one or two members of the Board or its staff serve as associate members of the investment committee of the Retirement System but no conclusion on this suggestion was reached.

Mr. Nelson left the meeting at this time.

Mr. Clayton referred to the draft of letter sent to the Bureau of the Budget under date of March 17, 1949, outlining proposed changes in capital requirements for member banks and for membership in the System, and stated that no response has been received from the Budget Bureau because that Bureau reported it had not yet received a response from the Federal Deposit Insurance Corporation as to its views on such legislation. Mr. Clayton

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added that the Budget Bureau hoped to have a reply from Chairman Harl of the Federal Deposit Insurance Corporation sometime next week, but that he was bringing the matter to the attention of the Board for discussion of the question whether to send the proposed letter to the Chairmen of the Banking and Currency Committees of the Senate and House without clearance from the Budget Bureau or whether to delay sending it in the hope that it would be possible to send it shortly with a statement of the relationship of the measure to the President's legislative program.

The matter was discussed, and it was agreed unanimously that the letter would not be sent at this time but that the matter would be considered again next week.

Mr. Carpenter reentered the meeting at this point.

Mr. Clayton referred to the pending labor legislation which would remove the exemption of the Federal Reserve Banks, contained in the Taft-Hartley Act, from the provisions of the National Labor Relations Act and suggested that inasmuch as it appeared probable that legislation would be voted upon by Congress in the near future, it would be desirable to send letters to the Chairmen of the labor committees, with copies to the Chairmen of the Senate and House Banking and Currency Committees, explaining why the exemption of the Federal Reserve Banks was

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desirable in the interests of the Federal Reserve System and the United States.

Mr. Clayton's suggestion was approved unanimously.

Secretary's Note: The following letter to Senator Thomas, Chairman, Senate Committee on Labor and Public Welfare, was prepared pursuant to the foregoing action and mailed under date of April 27, 1949, together with a similar letter to Honorable John Lesinski, Chairman, Committee on Education and Labor, House of Representatives, copies of which letters were sent respectively to Senator Maybank, and Representative Spence, Chairmen of the Senate and House Banking and Currency Committees.

"You will recall that on February 5, 1949, Mr. Lawrence Clayton, of the Board of Governors of the Federal Reserve System, appeared before your Committee in behalf of the Board to request that the new labor legislation contain an exemption of the Federal Reserve Banks from the definition of the term 'employer'. A statement was submitted, which was made a part of the record of the hearings of the Committee.

"The attention of the Board has been called to a report made by the President of the Office Employees International Union A.F. of L. on the occasion of its 1949 Convention in St. Louis, Missouri, on March 21, last. In a discussion of the Taft-Hartley Act, this report, among other statements, contains the following:

'There is one particular feature of the Taft-Hartley Act of direct and peculiar interest to our organization and which gives a further typical example of the cheap type of deception engaged in by the sponsors of such legislation. I am referring specifically to the action taken by the Joint Conference Committee in removing Federal Reserve Bank employees from coverage under the law.'

"The charge that the sponsors of the Taft-Hartley Act engaged in a cheap type of deception in connection



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"with removing Federal Reserve Bank employees from coverage under the law is wholly unwarranted. The bill as it passed the House provided, in the definition of the term 'employer', an exemption for the United States or 'any instrumentality thereof'. This would have clearly exempted the Federal Reserve Banks since they have been held on many occasions to be instrumentalities of the United States. Such exemption also would have taken national banks and other instrumentalities of the United States outside the purview of the law. Although the bill as it passed the Senate did not create an exemption for 'any instrumentality' of the United States, it is our understanding that under the applicable rules of the Senate and the House it was entirely within the province of the Conference Committee to narrow the exemption provided in the House bill so as to include only the Federal Reserve Banks.

"In this connection we wish to point out again the importance of exempting the Federal Reserve Banks from the application of the National Labor Relations Act. The Board of Governors, which is an independent agency of the United States, is specifically charged in the law with the responsibility of approving all compensation of officers and employees of the Federal Reserve Banks and exercising general supervision over such banks. Such matters as retirement and death benefits of employees, insurance, hospital and medical benefits, benefits upon termination of employment, and other related matters, are approved by the Board in accordance with System policies. Since these matters are determined finally by action of the Board of Governors, negotiations between the Federal Reserve Banks and their employees with regard to these matters could not be effective in producing any final results. It would therefore be futile to require Federal Reserve Banks to engage in collective bargaining with regard to such matters and obviously it was not intended by Congress that the Board of Governors, being the final arbiter in matters of this kind, should participate in collective bargaining.

"Moreover, the Federal Reserve Banks are institutions which are essentially public in character and are operated for public governmental purposes. The most important functions are carried on in the field of national credit and monetary control. These include the purchase and sale of Government securities under

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"direction of the Federal Open Market Committee; the issuance of Federal Reserve notes, which is the bulk of the currency now used by the public; and the holding of reserve balances of member banks. They also act as fiscal agents of the Treasury. The Federal Reserve Banks have been held by the courts on various occasions to be agencies of the Federal Government. The Reserve Banks are vastly different from national banks. The latter are commercial banking institutions operating for the profit of their private shareholders. This is not the case with the Reserve Banks. Indeed, it would be difficult to find an instrumentality or agency of the Government other than the executive departments and establishments of the Government themselves whose functions are more closely tied in with Government operations and whose activities are more governmental in character than the Federal Reserve Banks.

"In the circumstances, the Board of Governors feels that it is important to the Federal Reserve System and to the United States itself that the Federal Reserve Banks should be exempt from the provisions of the National Labor Relations Act."

At this time Messrs. Thomas and Young, Director and Associate Director, respectively, of the Division of Research and Statistics, Mr. Solomon, Assistant General Counsel, and Mr. Lewis, Chief of the Consumer Credit Section of the Division of Bank Operations joined the meeting.

Chairman McCabe raised the question whether Regulation W, Consumer Instalment Credit, should be liberalized at this time. Informal views were expressed by all the members present and it was agreed that the matter should be given further consideration at a meeting of the Board tomorrow, April 22, 1949.

There followed a brief discussion of the question whether

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reserve requirements of member banks should be changed in view of the changing economic situation, and it was understood that the matter would be considered at a meeting on Tuesday, April 26, 1949.

At this point Mr. Clayton withdrew from the meeting.

Mr. Morrill stated that in accordance with the discussion at the meeting yesterday, he talked with Mr. Townsend by telephone regarding the basis upon which Mr. Goldenweiser, Consultant to the Board, would be reimbursed for travel to the West Coast to testify as an expert in the hearings on the Clayton Act proceeding against Transamerica Corporation. He also said that in all the circumstances including the uncertainty as to how long Mr. Goldenweiser would have to be on the West Coast, he (Mr. Morrill) would recommend that Mr. Goldenweiser be compensated at the rate of \$50 per day of his employment for the purposes of the proceeding under the Clayton Act against the Transamerica Corporation and that he be allowed his necessary transportation expenses and a per diem in lieu of subsistence of \$8 in accordance with the Board's travel regulations for Directors of Divisions, together with such supplemental allowance for other expenses as may be approved by the available members of the Personnel Committee in an amount not exceeding \$425.

Mr. Draper moved that Mr. Morrill's recommendation be approved. This motion



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was put by the Chair and carried, Messrs. McCabe, Szymczak, and Draper voting "aye" and Mr. Vardaman voting "no" for the reason that, while he did not object to Mr. Goldenweiser testifying at the hearing, he did object to the Board paying him a special fee to do so-- and most of all to paying his wife's traveling expenses to San Francisco and return which Mr. Goldenweiser, so the Board was advised, had made a condition precedent to his proceeding to San Francisco.

Governors Eccles and Clayton took no part in the consideration of or action on this matter.

At this point Messrs. Riefler, Thomas, Vest, Young, Solomon, and Lewis 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 April 20, 1949, were approved unanimously.

Memorandum dated April 18, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Frank R. Garfield, Chief of the Business Conditions Section of that Division, be authorized to serve on an interagency committee to undertake a study of the technical and policy problems relating to the collecting, processing, and presentation of price and rental data, in compliance with a request made by Mr. Peyton Stapp, Assistant Chief of the Division of Statistical Standards of the Bureau of the Budget, that a representative of the Board be appointed to the committee, and recommending further that Clayton Gehman, an economist in the Division of Research and Statistics, be authorized to serve as Mr. Garfield's alternate.

Approved unanimously.

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Memorandum dated April 20, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Miss Mary Ann Chadik, a clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business April 22, 1949.

Approved unanimously.

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

"In accordance with the request contained in your letter of April 16, 1949, our records have been amended to indicate that another employee, in addition to those referred to in your letter of January 11, 1949, has been selected as a first-year student to attend, at the Bank's expense, the forthcoming session of the School of Banking at the University of Wisconsin.

"This is to advise that the Board of Governors interposes no objection to this additional enrollment."

Approved unanimously.

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

"This refers to your letter of April 14, 1949, outlining progress on the rehabilitation of the Nugent Building. It is noted that because of savings in certain contracts, it is anticipated the cost of the program, as outlined in Mr. Hannsen's memorandum of March 16, 1948, will be at least \$80,000 less than the \$800,000 authorized in the Board's telegram of September 29, 1948. It is noted also that your Bank's directors feel that failure to complete the garden wall and fill, which was not specifically included in Mr. Hannsen's

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"memorandum of March 16, 1948, would materially detract from the appearance of the property. You state that the maximum guaranteed cost of this work, if done concurrently with the other work now being done on the exterior, is \$25,000 plus architect's fees.

"The Board will interpose no objection to your Bank's undertaking the work outlined in your letter, at a maximum cost of \$26,500, including architect's fees."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"Reference is made to your letter of March 22, 1949, requesting the assent of the Board of Governors, so far as State member banks are concerned, to your proposal to audit the certified statements submitted for assessment purposes by each insured bank in the States of New York, New Jersey, and Delaware with deposits of over \$10 million and, perhaps, some of the smaller banks.

"In considering your request, we feel that it is desirable to review briefly the developments with regard to your program of auditing the certified statements submitted for assessment purposes by State member banks.

"In your letter of January 6, 1947, you advised that, as an experimental approach to the problem, the Corporation planned to audit the certified statements of insured banks with deposits in excess of \$5 million in Illinois and Iowa. In assenting to the program on January 16, 1947, the Board noted that the program was experimental and assumed that the Board would be advised as to the results of the experiment so that, if the audit program were to be extended, consideration could be given to the program as it pertained to State member banks. The Board also requested that, if serious cases of improper reporting by State member banks were disclosed, the matter be brought to the attention of the Federal Reserve Bank of the District.

"On May 13, 1947, you advised that it had been decided to proceed on the same basis with reference



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"to insured banks in Indiana. In replying on May 28, 1947, the Board noted that the extent to which the program would be carried eventually was as yet undetermined and requested that it be advised of the results of the experiment so far as they pertained to State member banks in Illinois, Iowa, and Indiana, so that if the audit program was to be extended further consideration could be given to the program as it pertained to State member banks in general.

"On October 23, 1947, you advised that it had become necessary to defer the audits of banks in Indiana, and the Board's assent was requested to the proposal, insofar as it involved State member banks, to audit the certified statements of all insured banks in Indiana, Wisconsin, and Michigan with deposits of over \$5 million. In assenting to the proposal on November 5, 1947, the Board understood that the extent to which the program would be carried eventually was as yet undetermined and requested that it be advised of the results of the experiment, so far as they pertained to State member banks in the five States previously mentioned.

"Under date of April 7, 1948, you advised the Board that the certified statements of each insured bank with deposits of over \$5 million in Illinois, Indiana, Iowa, Michigan, and Wisconsin had been audited and that no discrepancies in the certified statements of State member banks had been found which were thought of sufficient importance to be brought to the attention of the Board of Governors or the Federal Reserve Banks. You again described the project as being in the experimental stage and stated that, until the statements of a larger proportion of insured banks could be covered, no conclusions could be reached as to the desirability of extending the program to insured banks generally. You stated further that, if an affirmative conclusion should later be reached in this regard, it would be your purpose to go over the matter in detail with the Board or its representatives before undertaking to carry out a general program.

"In the same letter, you stated that it was proposed to audit the certified statements of each insured bank in Ohio and Pennsylvania with deposits of over \$10 million. In addition to the field audits of

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"such banks, it was also proposed to check the statements of smaller banks against call reports, examination report figures, and certain other available information for any apparent inconsistencies. You anticipated that most of the apparent inconsistencies could be cleared through correspondence but that it might be found desirable in a limited number of cases to perform field audits of the statements of smaller banks. The Board assented, in its letter of April 15, 1948, to the proposal regarding banks in Ohio and Pennsylvania.

"On December 13, 1948, you requested the Board's assent to the proposal to audit the certified statements of each insured bank in Tennessee with deposits of over \$10 million and to check statements and available information regarding smaller banks on the same basis as in Ohio and Pennsylvania. On December 21, 1948, the Board assented to this proposal.

"Although you advised the Board in your letter of April 7, 1948, that no discrepancies were found in Illinois, Indiana, Iowa, Michigan, and Wisconsin of sufficient importance to be brought to the attention of the Board of Governors or the Federal Reserve Banks, we have not been informed as to the results of the audits of the certified statements of State member banks in Ohio, Pennsylvania, and Tennessee.

"The extent of the field audit program heretofore undertaken by your Corporation raises the question as to whether the time has not arrived for the three Federal supervisory agencies that examine insured banks to develop, as a part of regular bank examination procedure, a program which will serve adequately the purposes of your Corporation with respect to certified statements. As you are well aware, many bankers have become restive, if not resentful, respecting the special audits which have been conducted. In the absence of advice from you to the contrary, it would appear to the Board that a sufficiently representative group of banks has been audited to develop facts on the basis of which supplemental techniques could be devised for use as a part of the regular examination to cover the needs of your Corporation for assessment purposes.

"Before acting on your request regarding the proposed audits of the certified statements of State member banks in New York, New Jersey, and Delaware, therefore, we would be pleased to have your reaction to the

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"foregoing suggestion. Representatives of the Board will be at your disposal for the purpose of discussing this matter."

Approved unanimously.

Letter to Mr. Alwood M. Brooks, President of the Central Bank & Trust Co., Denver, Colorado, reading as follows:

"The Board is glad that you expressed frankly in your wire of April 8 your views with respect to the position which the Board of Governors has taken in its letter to Chairman Spence with respect to H. R. 1161, the national bank conversion bill. It would appear, however, that you have misinterpreted the reasons for that position, and the Board has asked me to restate these reasons in the light of your comments.

"It was not the intention of the Board to oppose the bill as 'a club over the nonmember banks of the country' or as a means of influencing the passage of legislation applying supplemental reserve requirements to nonmember banks. Rather, the Board's position recognizes that as long as the present situation with respect to reserve requirements continues, member banks (including national banks) will be at a distinct disadvantage; and that, since this discrimination might influence a substantial number of national banks to convert into State institutions, it would not be a service to the dual banking system to remove the impediment to the conversion of national banks at this time.

"In his testimony before the Joint Committee on the Economic Report last February, Chairman McCabe stated that, 'It would be grossly inequitable to limit the (supplemental reserve) requirements to member banks alone. Member banks already carry higher effective reserves than nonmembers, while nonmember banks benefit by the strength which the very existence of the Federal Reserve System gives to the credit structure. It is unfair to have member banks bear the entire burden of actions in the monetary field undertaken in the public interest. I have found member banks, particularly small member banks, becoming



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"restive because of the inequitable application of reserve requirements. Failure to include all insured banks would seriously impair the effectiveness of national monetary policy."

"You refer to equalization between the two great banking systems of the country. It is to be remembered, however, that our dual banking system embraces not only a duality as between national banks and State banks but a duality also as between member banks of the Federal Reserve System and nonmember banks. Too often there is a tendency to forget that national banks and State member banks should be protected from discriminatory advantages possessed or sought by nonmember State banks and that this should be the equal concern of banking authorities along with the protection of nonmember State banks from discriminatory advantages possessed or sought by national banks as a class or State member banks as a class. It is under this principle that we feel that supervisory agencies and the banking systems, to use the phraseology in your telegram, should work together to the end that harmony and not dissension might bring a solution to our banking problems.

"Congress must be the arbiter as regards discriminatory situations arising from Federal statutes respecting banking. Until such time as Congress gives adequate consideration to the problem of supplemental reserve requirements in relation to insured nonmember banks, we do not feel that H. R. 1161 should be enacted. Thus, in our recent letter to Chairman Spence of the House Banking and Currency Committee, the Board said: 'In the circumstances the Board hopes that action with respect to H.R. 1161 can be deferred until consideration has been given to the problem of reserve requirements.'"

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Honorable Wright Patman, Chairman of the Select Committee on Small Business, House of Representatives, reading as follows:

"This is in response to your letter of April 1, 1949, requesting information regarding the making of

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"direct loans by the Federal Reserve Banks to established industrial and commercial businesses under section 13b of the Federal Reserve Act (Title 12, U.S. Code, sec. 352a).

"Section 13b was added to the Federal Reserve Act by the Act of June 19, 1934. This section provides that in exceptional circumstances, where the requisite financial assistance cannot be obtained on a reasonable basis from the usual sources, the Federal Reserve Banks, pursuant to authority granted by the Board of Governors, may make loans to established industrial or commercial businesses for working capital purposes. Such loans must be made on a reasonable and sound basis and must have maturities not exceeding five years. This section also authorizes the Federal Reserve Banks (without prior authorization from the Board) to discount, purchase, or enter into commitments with respect to such loans made by financing institutions to established business enterprises, provided that in any such case the financing institution obligates itself to assume at least 20 per cent of any loss on the loan.

"Immediately upon the enactment of the statute, the Board took steps to implement the law. On June 26, 1934, it issued its Regulation S to govern operations of the Federal Reserve Banks under the statute. In the Regulation the Board granted the Reserve Banks authority to make direct loans to business enterprises and that authority has continued and remains in effect.

"The Regulation was made as simple as possible and, in addition to the authorization for direct loans, amounted in substance to a mere restatement of the law and an outline of the necessary procedure with respect to both direct loans and commitments entered into with financing institutions. In a foreword to the Regulation, the Board stated that the broad powers granted by Congress to the Reserve Banks had been left unimpaired and that the Regulation prescribed no restrictions beyond those prescribed in the law itself. The Board also stated that no attempt had been made to prescribe technical definitions of such terms as 'working capital', 'established industrial or commercial business', and 'financing institutions', lest such definitions might have the effect of restricting or hampering operations of the Reserve Banks under the statute. This liberal policy has been consistently

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"pursued by the Board since the enactment of the statute; and when certain technical amendments were made to the Regulation in 1942, at the outset of the war, the Board reiterated in the foreword to the Regulation the statement of policy referred to above. A copy of the Regulation, in the form as revised effective April 30, 1942, is enclosed for your information.

"As indicated in the foreword to the Regulation, the Federal Reserve Banks were granted blanket authority to make direct loans to established industrial and commercial businesses on their own responsibility without the necessity of referring applications to Washington for approval. However, in a letter to the Federal Reserve Banks in 1935 (quoted in the enclosed copy of the Federal Reserve Bulletin for June 1935 on page 339), the Board stated that, while it was desirous of seeing loans made directly to borrowers where no financing institution is willing to participate, it believed that, for obvious reasons, it was in the best interests of the borrower and the banking community for advances to be made through financing institutions wherever possible.

"It was realized at the outset that the new facilities offered by the Federal Reserve Banks for making loans for working capital purposes must be actively brought to the attention of potential borrowers, since the general public was not accustomed to dealing directly with the Federal Reserve Banks. Accordingly, vigorous steps were taken by the Federal Reserve System in 1934, and subsequently, to inform the public that working capital advances might be obtained by business enterprises directly from the Federal Reserve Banks. In this connection, there is set forth in the enclosed copy of the Federal Reserve Bulletin for June 1935 a statement, beginning at page 337, summarizing the efforts made after the enactment of the statute to acquaint the public with the new functions of the Federal Reserve Banks.

"As indicated in the statement in the Federal Reserve Bulletin referred to above, the Federal Reserve Banks, in fixing interest rates on direct loans made by them, tried to avoid making the rates so low as to attract this type of business away from member and non-member banks and other financing institutions. At the same time, it was sought to keep the rates at a reasonable



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"level. In 1935 the rates on direct advances ranged from a minimum of 3-1/2 per cent to a maximum of 6 per cent. These rates are shown on page 402 of the enclosed copy of the Federal Reserve Bulletin. At the present time, the rates on direct advances range from a minimum of 2-1/2 per cent to a maximum of 5 per cent at each Federal Reserve Bank, except that the minimum at one Reserve Bank is 3 per cent.

"In administering the statute, no rigid procedure was prescribed. Each Federal Reserve Bank was permitted to follow such procedure as might be best adapted to local conditions. In general, as indicated in Regulation S, an industrial or commercial business which desires to obtain a direct loan from a Federal Reserve Bank merely files an application with the Reserve Bank of its district on a form furnished for the purpose by the Reserve Bank. Under the law, before action may be taken by the Reserve Bank upon any such application, it must first have been submitted to the Industrial Advisory Committee of the district for the recommendation of that Committee. These committees have been in existence and functioning from the beginning of the Federal Reserve Banks' activity in this field.

"In order to enable the Federal Reserve Banks to make the loans and commitments provided for in the statute, the Secretary of the Treasury was authorized to make payments to the Federal Reserve Banks in an aggregate amount not exceeding \$139,299,557. Under regulations issued by the Secretary of the Treasury, the Secretary made payments to each Federal Reserve Bank covering roughly one-half of the industrial loans and commitments made by the Reserve Bank and outstanding at one time. Between 1934 and 1937, the Secretary made such payments to the Reserve Banks in amounts totaling approximately \$27,500,000. Under the formula prescribed by the regulations of the Treasury, no such payment has been made to any Federal Reserve Bank since 1937.

"There is enclosed for your information a table showing the volume of operations under the law since 1934 which covers both direct loans (including participations in loans) and also commitments made to financing institutions and loans acquired pursuant to such commitments. You will note that since the enactment of the statute in 1934, the Reserve Banks have approved

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"3,607 applications for loans and commitments under section 13b of the Federal Reserve Act totaling approximately \$615,950,000. A substantial part of this total represents loans made directly by the Federal Reserve Banks. A special study made several years ago for the period from June 19, 1934, to May 31, 1940, showed that out of 2,911 applications approved in the amount of \$192,206,000, 1,299 amounting to \$53,903,000 were direct loans. The proportion of direct loans had not changed materially since 1940. Approximately 70 per cent of all direct loans made during the period of the study referred to above were to borrowers with total assets under \$250,000, and nearly half of these were to borrowers with total assets under \$50,000. The average amount per loan of all direct loans was \$44,300, while the average to the smallest borrowers, that is, those with assets under \$50,000, was \$3,800. Loans as low as \$300 have been approved.

"Your letter also refers to the provisions of section 343 of Title 12 of the U. S. Code. Those provisions, which constitute the third paragraph of section 13 of the Federal Reserve Act, empower the Board of Governors, in unusual and exigent circumstances, to authorize any Federal Reserve Bank to discount for individuals, partnerships, or corporations, paper of the kind which would be eligible for discount under the Act in the hands of member banks. The Board granted authority to the Reserve Banks to make such discounts for successive periods of time between 1932 and 1936. However, the authority contained in section 13b for the making of industrial loans by the Federal Reserve Banks is generally broader in scope than the authority for discounts contained in the third paragraph of section 13, and the Board has not granted authorization for such discounts since July 31, 1936.

"While operations under section 13b were fairly extensive in the early years, their effectiveness has been limited by certain restrictions prescribed in the law, principally the requirements that loans must be for working capital purposes, that they may be made only to 'established' businesses, and must have maturities not in excess of five years. It must be borne in mind that ever since the enactment of section 13b the RFC has possessed similar, but much more liberal authority, to make and guarantee loans to business enterprises. As you are doubtless aware, the Board has recommended

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"to Congress on a number of occasions that the law be amended to give the Reserve Banks more effective authority to render assistance in the financing of business enterprises. The legislation recommended by the Board, in addition to liberalizing the authority of the Reserve Banks in this respect, would have also provided for the return to the Treasury of the amounts previously paid to the Reserve Banks under section 13b.

"It is hoped that the above statement will adequately provide the information you desire. If, however, there are any further questions which you may have in connection with this matter, please do not hesitate to call upon us."

Approved, Mr. Vardaman not  
voting.

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

"In view of uncertainties as to the prospective business situation, question has arisen as to what program Reserve System might follow to prepare for maximum helpfulness in business financing through section 13b, assuming no change in statutory authority. Board suggests Presidents be prepared to discuss the subject at joint meeting with Board."

Approved unanimously.

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

"This is in response to your letter of April 13 requesting an expression of the Board's views concerning the bill S. 1184 and amendments thereto suggested by the National Military Establishment and the Housing and Home Finance Agency.

"The amended bill would add a new Title VIII to the National Housing Act under which the Federal Housing Administration would insure mortgages on new rental housing at or near military or naval installations where, in the event of abandonment or substantial



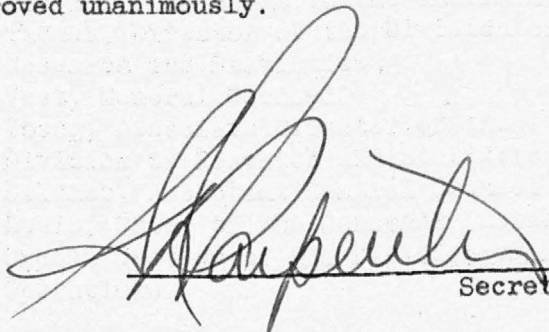
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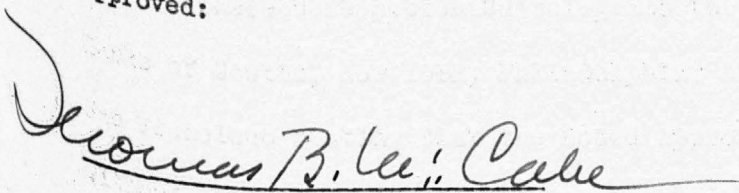
"curtailment of activities, there would be little market for the housing.

"The changes suggested by the Housing and Home Finance Agency would improve the bill, but the effect still would seem to be to provide a form of subsidy through the Federal Housing Administration for housing in such military areas. There may be peculiar reasons in a particular case for resorting to such subsidy operations, and it is conceivable that this may be such a case, but in general the Board believes such subsidies are likely to be a less satisfactory method than appropriations for Government construction or for direct subsidy to private rental housing operations."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.