Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 13, 1949. The Board met in the Board Room at 10:15 a.m.

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

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. Dembitz, Chief of the International Financial Operations Section of the Division of Research and Statistics
Mr. Hinshaw, Economist, Division of Research and Statistics

Chairman McCabe inquired whether there would be any objection to the Board sending to all banks in the United States copies of the testimony which he presented before the Senate Banking and Currency Committee on May 11, 1949, in support of S.1775, a bill providing authority to require all insured banks to carry supplemental reserve requirements of 4 percent on demand deposits and 1-1/2 percent on time deposits, and S.J.Res.87, extending until June 30, 1951, authority to regulate consumer instalment credit. He also suggested that it might be desirable to send all banks copies of the statement presented to the Committee by Mr. Sproul, President of the Federal Reserve Bank of New York.

The other members of the Board indicated that they would approve sending copies of Chairman McCabe's statement to all banks in the United States but that they had not had an opportunity to read Mr. Sproul's statement. It was agreed that they would read the statement later in the day in the light of the Chairman's suggestion.

Mr. Eccles entered the meeting at this time.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on May 10, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on May 12, 1949, of the rates of discount and purchase in their existing schedules, except that in the case of Richmond the Board approves effective May 13, 1949, elimination of special maximum commitment rate of 1/4 percent or a flat fee not to exceed $50 on loans under Section 13b of the Federal Reserve Act guaranteed under Regulation V.

Approved unanimously.

There was then presented a memorandum prepared by Mr. Vest under date of May 9, 1949, in accordance with the discussion at the meeting of the Board on May 6, 1949, transmitting a draft of proposed report on S.1559, a bill providing for the establishment of a National Monetary Commission. Mr. Vest stated that on Friday, May 6, 1949, the Senate passed S.Res.101 authorizing the Senate Banking and Currency Committee to make an investigation of banking and credit legislation and related matters, and on the same day it also passed S.Con.Res.26 authorizing the Joint Committee on the Economic Report to make an investigation which would cover some of the same ground.

Chairman McCabe referred to the views expressed in the statement which he made before the Senate Banking and Currency Committee on May 11, 1949, with respect to the desirability of a study of central banking, monetary, regulatory, and supervisory authority, and suggested that the draft of proposed report be revised along the lines of the statement which he made.

> Chairman McCabe's suggestion was approved unanimously, with the understanding that the revised draft of report would be resubmitted to the Board for consideration and that, in the form proposed, the report would not be sent to the Bureau of the Budget for comment.

Mr. Solomon entered the meeting at this time.

Reference was made to the discussion at the meeting on Tuesday, May 10, regarding the proposed reduced margin requirements under 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, with respect to securities purchased through the exercise of rights. Mr. Solomon stated that pursuant to the understanding at that meeting, a wire was sent to all Federal Reserve Banks informing them of the proposed amendments, that replies had been received from all but three of the Reserve Banks, that all replies indicated approval of the proposed change or stated there was no objection to it, and that suggestions made by the Federal Reserve Bank of New York with respect to technical changes had been given full consideration. He added that he had discussed the proposed amendment further with Mr. Clayton by telephone this morning and that in the light of the comments received from the Reserve Banks and further consideration of the matter, Mr. Clayton felt the Regulations should be amended along the lines discussed at the meeting on May 10 to provide that securities acquired through the exercise of rights would require a margin of not less than 25 percent, with the understanding that such transactions would be set aside in a special account in which substitutions and withdrawals would not be permitted and that unless the margin was brought up to a figure of 50 percent within nine months from the date of purchase, the account would become restricted as to granting new credit on the preferential terms.

He also stated that a draft of the proposed amendment had been sent informally to the Securities and Exchange Commission and that the Commission had no suggestions to make.

Thereupon, upon motion by Mr. Szymczak, unanimous approval was given to the following amendments to Regulations T and U, effective May 16, 1949:

"AMENDMENT NO. 9 TO REGULATION T

"Issued by the Board of Governors of the Federal Reserve System

"Effective May 16, 1949, Regulation T is hereby amended by striking out section 6(1) of said regulation and by adding the following subsection at the end of section 4 of said regulation:

'(h) Special subscriptions account. - In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that -

'(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 percent of their current market value as determined by any reasonable method;

'(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

'(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.'

"In order to facilitate the exercise of a right in accordance with the provisions of this section, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this regulation."

"AMENDMENT NO. 10 TO REGULATION U

"Issued by the Board of Governors of the Federal Reserve System

"Effective May 16, 1949, Regulation U is hereby amended by changing section 3(p) of said regulation to read as follows:

'(p) A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75 percent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation.'"

Unanimous approval was also given to a statement for the press as follows, for release in the morning newspapers of Saturday, May 14, 1949, with the understanding that the statement and the amendments would be sent to all Federal Reserve Banks by telegram with copies to all branches of Federal Reserve Banks for their information and with the request to the head offices that they print and make distribution of the amendments in their respective districts:

"Effective Monday, May 16, 1949, the Board of Governors "has amended Regulations T and U (margin requirements), increasing from 50 to 75 percent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50 percent generally applicable under the regulations."

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

"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 2(e) of the Board's Rules of Procedure (12 CFR 262.2(e)), and especially because in connection with this permissive amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

At this time, Chairman McCabe withdrew from the meeting to keep another appointment.

Mr. Hinshaw, an economist in the International Section of the Division of Research and Statistics, then presented a report of his visit to Europe in April 1949, to attend a meeting of the financial officers of the Economic Cooperation Administration in Paris on April 4-5 and to discuss exchange rates.

Following Mr. Hinshaw's report, he and Mr. Dembitz withdrew from the meeting.

Reference was then made to the discussion earlier in the meeting of the desirability of sending all banks in the United States the statement presented by Mr. Sproul to the Senate Banking and Currency Committee on May 11, 1949 at the time copies of Chairman McCabe's testimony were mailed. It was suggested that if Mr. Sproul's statement was sent, consideration should be given to the distribution also of the statement made by Mr. Williams, President of the Federal Reserve Bank of Philadelphia.

Mr. Eccles stated that while he felt it was desirable to send Chairman McCabe's statement to all banks, he questioned the desirability of sending the statements by Messrs. Sproul and Williams since it might set an undesirable precedent should the question arise in connection with future statements by Federal Reserve Bank officers or directors, the Federal Advisory Council, or others.

> Following a discussion, it was voted unanimously that Chairman McCabe's statement should be mailed to all banks in the United States, that regular postage should be paid in connection with its distribution, but that no action should be taken with respect to distribution of the statements of Messrs. Sproul and Williams.

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

Memorandum dated May 11, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the resignation of Mrs. Ardith Watts, a clerk in that Division, be accepted, to be effective, in accordance with her request, at the close of business May 27, 1949.

Approved unanimously.

Memorandum dated May 12, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending the transfer of Miss Virginia E. Leaman from the Office of the Secretary to the Division of Research and Statistics as a clerk-stenographer, with no change in her present basic salary of $2949.72 per annum, effective as of the date upon which she enters upon the performance of her new duties. The memorandum also stated that the Office of the Secretary was agreeable to this transfer.

Approved unanimously.

Memorandum dated May 13, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending increases in the basic annual salaries of the following employees in that Division, effective May 15, 1949:

Name	Title	Salary Increase From	Salary Increase To
Raymond J. Collier	Technical Assistant	$5,984.40	$6,235.20
Esther M. Conover	Clerk	3,351.00	3,476.40
Jane G. Dodge	Secretary to Mr. Myrick	3,225.60	3,351.00
Mrs. Ruth B. Willard	Clerk-Typist	2,498.28	2,648.76

Approved unanimously.

Memorandum dated May 6, 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 May 15, 1949:

Name	Title	Salary Increase From	To
Fred W. Troup	Federal Reserve Examiner	$5,984.40	$6,235.20
John J. Hart	Assistant Federal Reserve Examiner	3,978.00	4,228.80
Lloyd M. Schaeffer	Assistant Federal Reserve Examiner	3,351.00	3,476.40
C. H. Bartz	Federal Reserve Examiner	5,232.00	5,357.40
Thelma M. Zarin	Stenographer	2,799.24	2,874.48

Approved unanimously.

Memorandum dated May 12, 1949, from Mr. Millard, Director of the Division of Examinations, recommending the appointment of Miss Caroline Mary Clark as a stenographer in that Division, with basic salary at the rate of $2,284.00 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.

Memoranda dated May 10, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the following employees of that Division be appointed on a permanent basis, with no change in their present basic salaries, effective May 13, 1949:

Name	Title	Salary
Melvin I. White	Economist	$6,235.20

Name	Title	Salary
Daniel H. Brill	Economist	$6,714.00
Samuel I. Katz	Economist	5,232.00
Sylvia Levinson	Economist	3,727.20
Jane A. Moore	Economist	3,727.20
William J. Powers	Research Assistant	3,351.00
Harrison Parker	Research Assistant	3,351.00
Loretta Freedman	Clerk	2,724.00
Patricia A. Mickelsen	Clerk	2,724.00
Jennie Lee Glass	Clerk	2,573.52
Mary M. Ryan	Clerk	2,573.52
June Crawley	Clerk	2,498.28
Eleanor M. Boylan	Clerk-Stenographer	2,724.00
Elizabeth Ann McMahon	Clerk-Stenographer	2,724.00
Nancy J. Smith	Clerk-Stenographer	2,724.00
Alice L. Tallent	Clerk-Stenographer	2,724.00
Mildred L. Whaley	Clerk-Stenographer	2,724.00
Betty Haller	Clerk-Stenographer	2,350.00
Eileen K. Jacobus	Clerk-Typist	2,498.28

Approved unanimously.

Letter to The Citizens National Bank of Charles City, Charles City, Iowa, reading as follows:

"This refers to the resolution adopted on December 7, 1948, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal

"Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by section 11(k) without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of section 11(k)."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that 'The Thompsonville Trust Company', Thompsonville, Connecticut, became a member of the Federal Reserve System on May 10, 1949, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to Mr. Arturo Maschke, Manager, The Central Bank of Chile, Santiago, Chile, reading as follows:

"We acknowledge with pleasure your letter of April 25 "apprising us of the decision of your directors to arrange a meeting of central bank technicians to be held in Santiago in December of this year. The time is agreeable to us, and we shall be very happy to cooperate. The Federal Reserve Bank of New York, which has also received your notification, will be represented, and presumably some one of the other eleven Federal Reserve Banks. The details of our representation can of course be furnished later.

"We are studying the provisional program for the meeting and shall doubtless have some observations respecting it to send you in the near future."

Approved unanimously.

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

"Re your wire May 12 regarding proposed renewal of part of loan to Banque de France in keeping with the program of gradual liquidation of this loan. Board approves three-month renewal to August 23, 1949, of $75,000,000 of loan maturing May 23, 1949, on the same terms and conditions as apply to the outstanding loan and on the understanding that the renewal to August 23 and any further renewals of the loan which might be requested by Banque de France would, if granted, be contingent upon the repayment of $25,000,000 at each maturity date.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

Memorandum dated May 11, 1949, from Mr. Leonard, Director of the Division of Bank Operations, reading as follows:

"The regulation W Section has received several telephone calls recently from Congressional sources inquiring into costs incurred in the administration of Regulation W. Among the calls received were one each from Senator Capehart's office (Indiana), Senator Jenner's office (Indiana), and Mr. Billings of the Library of Congress.

"In handling the calls, the inquirers were told:

(1) Regulation W was not administered with funds obtained from Congressional appropriation.

(2) It would be difficult to arrive at exact figures since many who assist in the enforcement program do so simultaneously with the execution of their primary duties. For example, bank examiners watched the terms of consumer instalment paper as they checked bank assets.

(3) The number of people working full time on Regulation W was relatively small since a large portion of the enforcement program was accomplished as described above.

(4) The administration of the regulation is decentralized, with the 12 Federal Reserve Banks and their 24 branches conducting the enforcement program in their respective districts.

(5) Suggested that since the cost figures were not readily available, it would be better for the legislators to take the matter up officially with the Board.

"It has been proposed that we telephone Mr. Billings and the Senators' offices listed above and tell them that based on actual expenses reported by the Federal Reserve Banks and their branches for the first three months of this year, it is estimated that total expenses incurred by the Federal Reserve System on an annual basis in the administration of Regulation W would amount to from one and one-quarter million dollars to one and one-half million dollars.

"The system is assisted in the administration of Regulation W by the examiners of the various Federal Agencies, such as, the FDIC, Comptroller's Office, and other agencies supervising various classes of lenders subject to the regulation; and by the various State Banking Departments which supervise State-chartered lenders subject to Regulation W. No examiners have been added by the cooperating supervising agencies for Regulation W work alone, and hence it cannot be said that the regulation causes additional expense in that connection. However, the examiners do watch the terms of consumer instalment paper as they check the assets of the banks and other lenders subject to the regulation.

"Because of this assistance the number of people working full time on Regulation W at the Reserve Banks and Branches is relatively small.

"During the month of March the 120 investigators of the Reserve Banks conducted 7,812 investigations and made 1,519 non-investigative calls concerning Regulation W. No complete figures are available on the number of regular examinations made by cooperating supervising agencies of banks, loan companies, credit unions and other lenders subject to the regulation.

"The following figures represent projections on an annual basis from the actual expense figures reported by the Reserve Banks and Branches for the first three months of this year:

Estimated Annual Regulation W Expense at Reserve Banks		
Salaries - 12 Reserve Banks and 24 Branches		$994,792
Travel Expense		171,156
Telephone, Supplies, and all other		45,324
Total Estimated Annual Expense at Reserve Banks and Branches-		$1,211,272
Estimated Annual Direct Regulation W Expense at Board*		
Salaries	$21,000	
Travel Expense	1,500	
Telephone and Supplies	5,000	27,500
Estimated Annual Expenses for System-		$1,238,772

*Covers only expenses estimated for Regulation W Section, with no cost figures included for time spent by staff in other sections on Regulation W matters."

Approved unanimously.

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

"In connection with the regular quarterly report sent to the Board in response to its letter (S-953) dated January 27, 1947, the Board would like information relating to the several questions listed below. The questions are not designed to limit your comments on general developments but rather are intended to point up the general topics the Board would like discussed in the report.

"In addition, you may include in the letter information concerning consumer credit developments. This will supersede the special monthly consumer credit report you ordinarily would submit at the end of May.

"It will be appreciated if we can have your quarterly letter here by June 10.

"1. The decline in business loans is being attributed mainly to (a) inventory adjustment and (b) increased use of nonbank sources of funds. Are these the major factors? Is the inventory adjustment continuing or is it about over? Will there be a second-half pickup in business loans?

"2. With the freeing of some reserves and the decline in business loans, are banks becoming more receptive to other kinds of loans (e.g., real estate loans and term loans) or are they expecting to go more heavily into Governments, or perhaps into other securities?

"3. Is the demand for farm production credit heavier this year and are banks generally meeting that demand?

"4. Are there any signs of further softening of activity and values in the residential real estate field? Are many completed houses remaining unsold? What does the information available to you indicate with regard to recent lending activities in this field on the part of insurance companies and other nonbank lenders? Is construction money readily available?"

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.