

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 7, 1949. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Vest, General Counsel
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Associate Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Parry, Consultant

Chairman McCabe stated that he received a telephone call this morning from Mr. Parsons of the staff of the Senate Banking and Currency Committee who referred to S.1664, a bill to exempt securities issued by the International Bank for Reconstruction and Development from the provisions of Section 5136 of the revised statutes which relates to dealings in securities by National and State member banks.

Chairman McCabe stated that Mr. Parsons asked whether the Board would wish to have someone appear at hearings on the measure which were expected to be held on Friday, June 10, 1949. It was the consensus that the views expressed in the Board's letter to Chairman Maybank of the Senate Banking and Currency Committee of May 5, 1949, adequately

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presented the Board's views with respect to this bill, and it was suggested that Mr. Carpenter telephone Mr. Parsons suggesting that the letter to Chairman Maybank could be read into the record and unless the Committee expressly desired that a member of the Board appear at the hearing, the Board would see no reason for doing so.

The foregoing suggestion was approved unanimously.

Chairman McCabe stated that he received a call from Mr. David E. Scoll, attorney with Scoll and Longcope of New York City, who stated that he had been asked to serve as Counsel for the Joint Committee on the Economic Report in connection with hearings to be held under the authority of S.Con.Res. 26, on the question of equity financing, and that he would appreciate suggestions as to witnesses who might be called to testify and the order in which they should appear. He also said that the Division of Research and Statistics was preparing such a list and that he would be glad to have the suggestions of the members of the Board. The matter was discussed briefly.

At this time Mr. Shay, Assistant Counsel, and Mr. Koch, Chief of the Business Finance and Capital Markets Section, Division of Research and Statistics, entered the meeting.

Mr. Clayton stated that Mr. Parry had completed a history of 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

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Securities Exchange, in accordance with the action taken at the meeting of the Board on February 23, 1949, and that copies had been sent to all members of the Board before this meeting. At Mr. Clayton's request Mr. Parry summarized the contents of the history, and stated that he did not consider it to be in form for distribution outside the Federal Reserve System and that if wider distribution were contemplated, it should be submitted to the Federal Reserve Banks and revised on the basis of comments received from the Banks and the members of the Board and its staff.

In this connection Mr. Clayton referred to the discussion at the meeting on February 23, 1949, of the formation of a System margin committee and to the letter to Mr. Dearmont, Chairman of the Chairmen's Conference under date of March 15, 1949, asking that he give consideration to the desirability of forming such a committee for the purpose of making an analysis of factors that should be considered by the Board in approaching a change in margin requirements and of studying the method used in regulating margins. Mr. Clayton stated that Mr. Dearmont informed Mr. Carpenter at the recent Chairmen's Conference that the letter dated March 15 had not been received and that no action had been taken toward formation of such a committee. Mr. Clayton went on to say that in view of the changes in the economic situation since the Board's letter was written, the actions by the Board to reduce margin requirements since March 15, and the completion of the report by Mr. Parry,

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he felt the question of a Chairmen's committee might be reconsidered.

Mr. Vardaman stated that he felt no committee should be formed as it might assume that it should be consulted before changes were made in either Regulations T or U and that he considered this to be a responsibility solely of the Board, but he would have no objection to formation of a committee composed only of Class C directors who would study only the broader approach to changes in margin requirements, provided such a committee was asked to submit a report at the next Chairmen's Conference.

Mr. Draper stated that he felt any study undertaken by a Chairmen's committee should be limited to a review of the function of margin requirements and that the committee should not consider the actual operation of the regulations in so far as they applied to levels of margin requirements.

Following the discussion, upon motion by Mr. Clayton, unanimous approval was given to his suggestion that a new letter to Mr. Dearmont be prepared and submitted to the Board for approval.

In connection with the above matter, Mr. Clayton stated that he was working with the staff on further technical changes in Regulations T and U and expected to present these, together with suggestions as to what further action, if any, should be taken to change the level of margin requirements, for consideration by the Board around the end of June or first of July.

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At this point Messrs. Parry, Shay, and Koch left the meeting and Mr. Lewis, Chief of the Regulation W Section of the Division of Bank Operations, entered.

Mr. Clayton referred to the discussion at the meeting on May 19, 1949, stating that in view of the fact that Regulation W, Consumer Instalment Credit, would automatically expire in a little more than three weeks unless Congress acted to continue authority for the Board to regulate consumer instalment credit, he would recommend that no change be made in the Regulation prior to June 30.

A discussion ensued as to whether the Regulation should be (1) terminated entirely, (2) terminated as to all items except automobiles (which would present a difficult problem with respect to unclassified loans), or (3) continued unchanged until June 30.

During the discussion, Mr. Young stated that preliminary results of the Survey of Consumer Finances conducted in January, February, and March of this year would be released next week showing that consumer intentions to buy during the year 1949 were as strong at that time as a year ago. He also expressed the opinion that the economic situation would not justify a suspension of the Regulation at this time.

At the conclusion of the discussion, it was understood that no action would be taken.

Reference was then made to a memorandum from Mr. Young dated

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June 1, 1949, which stated that Mr. Exter, an economist in the Division of Research and Statistics presently assigned to assist the Government of Ceylon, had informed him by letter dated May 16, 1949, that the Ceylon Government expected to request an extension of his stay for a period of six months. Mr. Young's memorandum recommended that he be authorized to advise Mr. Exter that the Board, upon receipt of an appropriate request, would consider favorably an extension of Mr. Exter's assignment in Ceylon up to as much as three months, to a date not later than September 28, 1949.

Mr. Vardaman stated that the memorandum had come to him for approval, that he was opposed to any extension of the time for which Mr. Exter was authorized to assist the Government of Ceylon beyond the six months' period originally approved in November 1948, and that he wished to be recorded as voting against the extension as proposed.

Thereupon, approval was given to the recommendation contained in Mr. Young's memorandum; Messrs. McCabe, Eccles, Draper, and Clayton voting "aye" and Mr. Vardaman voting "no". Mr. Szymczak previously had indicated he would favor the recommendation.

Mr. Vardaman stated that Mr. Peyton, President of the Minneapolis Reserve Bank, called him on the telephone yesterday to ask whether the Board would look with favor upon the inclusion in the 1950 budget of that Bank of an amount not to exceed \$3,000 to be used in conjunction with contributions by other Minneapolis banks in support

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of the annual convention of the American Institute of Banking to be held in Minneapolis next year. Mr. Vardaman stated that he felt the educational activities of the American Institute of Banking justify support by the Reserve Banks in connection with their national convention, and he would recommend that Mr. Peyton be informed that the Board would interpose no objection to inclusion of an item in the Bank's 1950 budget as proposed.

Approved unanimously.

At this time all members of the staff except Mr. Carpenter withdrew, and the Board went into executive session.

There was an informal discussion of a memorandum dated May 25, 1949, from Mr. Young suggesting that he be authorized to accept the invitation of the London Institute of Bankers to attend the forthcoming summer school of the Institute from September 3 to 17 at Oxford, England.

It was agreed unanimously that the matter should be considered by the Board at the first regular meeting next week at which Mr. Szymczak is present.

Chairman McCabe read a letter which he received from Senator McClellan, Chairman of the Senate Committee on Expenditures, under date of June 3, in which it was stated that at hearings on resolutions calling for a reduction in the Federal budget for the year 1950 the Committee had attempted to develop estimates relative to the impending Federal deficit due to decreases in anticipated revenues,

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that the Treasury had been unable to supply figures as to current estimates, and that it was requested that the Chairman advise at his earliest convenience whether it would be possible for the Board to supply the Committee with information relative to indicated changes in estimates of probable 1950 budget receipts in the light of changed business and economic conditions.

The matter was discussed, and it was agreed unanimously that Chairman McCabe should call Senator McClellan on the telephone and advise him in effect that the Board was not in a position to furnish the information which he requested, that estimates of budget receipts were prepared primarily by the Treasury Department, and that since the matter is within the field of Treasury responsibility, the Board did not feel it would be appropriate for it to undertake to supply material which the Treasury stated it was unable to furnish.

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 6, 1949, were approved unanimously.

Letter to Mr. Robert L. Shepherd, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of June 2, 1949, the Board of Governors approves the appointment of Mr. Winfred W. Keller as Federal Reserve Agent's Representative at the Charlotte Branch with salary at the rate of \$3,960 per annum, to succeed Mr. Paul D. Gilliam.

"This approval is given with the understanding that

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"Mr. Keller will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Charlotte Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

"It is noted from your letter that Mr. Keller's appointment will become effective when he executes the usual oath of office, which will be forwarded to the Board of Governors."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Honorable Carl Albert, House of Representatives, reading as follows:

"I received your letter of May 28, 1949, in which you state that you had received complaints from people in southeastern Oklahoma about the location of that area in the Eleventh Federal Reserve District while the communities involved deal primarily with Oklahoma City financial organizations which are located in the Tenth Federal Reserve District.

"I appreciate your writing me on this matter because it has not been brought to our attention from any other source and we have not known of any dissatisfaction with respect to the existing district lines. The necessary investigation will be made promptly and I will write you again as soon as the results of the investigation are available."

Approved unanimously.

Letter to The Capital National Bank in Austin, Austin, Texas, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application

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"for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as assignee, 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 these powers, in addition to those heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, and receiver, shall 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, for transmission through the Federal Reserve Bank of Dallas.

Letter to Mr. Johns, Vice President and General Counsel, of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of May 24, 1949, enclosing a copy of a letter dated May 12, 1949, to the Oklahoma City Branch of your Bank from Mr. F. M. Overstreet, Vice President, First National Bank at Ponca, Ponca City, Oklahoma, concerning alleged violations of Regulation W by Mr. Paul V. Rives in connection with the operation of a used car business in that city.

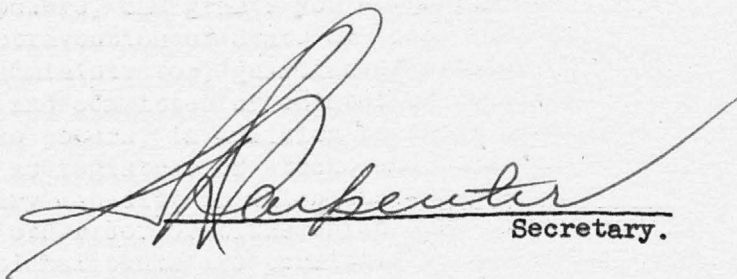
"You indicate that according to information obtained by your Oklahoma City Branch, Mr. Rives is no longer engaged in the automobile business, and may not be engaged in any business at the present time. We agree with your suggestion that steps should be taken to ascertain whether or not he is now engaged in any business affected by the requirements of Regulation W. However, to investigate no further would seem inappropriate, particularly since Mr. Overstreet has requested an investigation and has offered to furnish all the information he has. The situation would seem to be one involving bank relations as well as enforcement of Regulation W.

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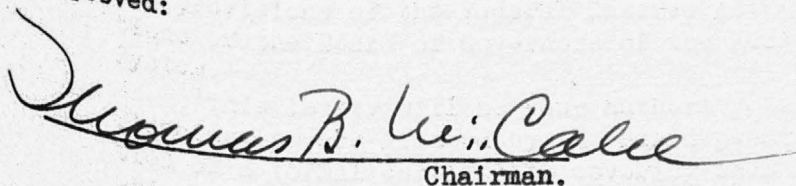
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"We recognize that Mr. Overstreet's primary interest may well be the redressing of certain alleged wrongs which he states he has suffered at the hands of Mr. Rives, and that these alleged wrongs, no matter how reprehensible in other respects, may have failed to involve any violation of Regulation W. For example, Mr. Overstreet states he was sold a note which was supposed to represent the sale of an automobile, but that no such automobile existed. We also recognize, as you indicate, that a criminal prosecution would be the only effective remedy against Mr. Rives for violating Regulation W if he is no longer engaged in any business. In the circumstances, it would seem reasonable to defer at this time a sweeping investigation such as would involve, for example, extensive customer contacts. Nevertheless, it would seem advisable to afford Mr. Overstreet every opportunity to make available to your Oklahoma City Branch such information as he may have with respect to possible violations of the regulation."

Approved unanimously.


Secretary.

Approved:


Chairman.