Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 29, 1949. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Thomas, Director, Division of Research and Statistics
Mr. Leonard, Director, Division of Bank Operations

There were presented telegrams to the Federal Reserve Banks of Boston, 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 July 26, by the Federal Reserve Bank of St. Louis on July 27, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas on July 28, 1949, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman McCabe suggested that inasmuch as Mr. Szymczak would be on vacation next week and might not be present when further consideration would be given to System credit policy at which time there would be a discussion of action by the Board on a further

FRASER
fed.org/

reduction in reserve requirements of member banks, he should have an opportunity to express his views at this meeting of the Board.

Mr. Szymczak said that while he was not prepared to say at this time what his position would be next week on the extent to which member bank reserve requirements should be reduced as that would depend on developments in the interim and on discussions next week, he did feel that the Board should discuss the matter on Thursday and should indicate at the meeting of the Federal Open Market Committee on Friday the action that the Board was prepared to take. His present thinking was that reserve requirements should be reduced by two percentage points on demand deposits of all member banks, announced to become effective in two steps, but that the amount of the reduction should be related to the reduction to be made in the System's portfolio of Treasury bills. He felt that a change in the discount rate should be included in the discussions next week and should be considered by the directors of the Federal Reserve Banks.

Mr. Riefler reviewed the points covered in a staff discussion with Mr. Rouse, Manager of the System Open Market Account, on July 27 of System open market policy in relation to the overall credit policy of the System, and in that connection Chairman McCabe referred to a letter received from Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, under date of July 25, 1949, relating to the market for bank stocks. It was understood that the

for FRASER
louisfed.org/

letter would be circulated among the other members of the Board for their information.

There was a general discussion, in the light of the decisions that might be made with respect to Treasury bills in the System Open Market Account, of the desirability of a further reduction in reserve requirements. Messrs. McCabe and Szymczak felt that action was called for at the present time and that communication with the absent members of the Board and with the five President members of the Federal Open Market Committee with a view to immediate action by the Board would be justified. Mr. Clayton did not feel that the situation was sufficiently compelling to require action until the matter could be discussed next week when a quorum of the Board would be present.

At the conclusion of the discussion it was agreed that a meeting of the Board should be called for 10:30 a.m. on Thursday, August 4 to consider action on member bank reserve requirements, at which time a decision should be reached, and that the absent members of the Board should be informed of the discussion today and of the meeting on Thursday so that they could be present if they so desired.

Various suggestions were considered as to the effective dates of a further reduction in reserve requirements. In connection with one suggestion that the effective date for country banks be August 1, Mr. Vest stated that there was no legal objection to taking action

FRASER

the latter part of next week and making it effective retroactively to August 1 but that such action had never been taken and it might be interpreted by the general public as indicating a more urgent need for the reduction than was actually the case.

It was the general consensus following the discussion that if member bank reserve requirements were reduced by two percentage points, one half of the reduction could be made effective for country banks as of August 1 and for reserve and central reserve city banks on August 4, and that the second half could be made effective for central reserve and reserve cities on August 11 and for country banks on August 16.

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

Memorandum dated July 27, 1949, from Mr. Vest, General Counsel, recommending an increase in the basic salary of Howard H. Hackley, Assistant Counsel, from $8,808.75 to $9,108.00 per annum, effective August 7, 1949.

Approved unanimously.

Memorandum dated June 3, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending an increase in the basic salary of Orville K. Thompson, an economist in that Division, from $4,730.40 to $4,855.80 per annum, effective August 7, 1949.

FRASER
fraser.stlouisfed.org/

Approved unanimously.

Memorandum dated July 25, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Elaine L. Quarforth, leave clerk in the Division of Personnel Administration, be transferred to the Division of Research and Statistics as a clerk-stenographer, with no change in her present basic salary of $2,498.28 per annum, effective as of the date upon which she enters upon the performance of her new duties. The memorandum also stated that the Division of Personnel Administration was agreeable to this transfer.

Approved unanimously.

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

Approved unanimously.

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

"Replies of the Federal Reserve Banks to the Board's letter of February 23, 1949, indicate clearly that they are in favor of liberalizing the rules under which Federal Reserve Banks waive penalties for deficiencies in reserves of member banks. A summary of the Banks' comments is enclosed.

FRASER

"It will be noted that the only proposals about which there appear to be any substantial differences of opinion are those which would authorize Federal Reserve Banks to waive, under certain conditions, penalties for reserve deficiencies which were offset by excess reserves. Two important questions appear to be raised, namely: (1) whether the reserve computation period (for central reserve and reserve city banks only, or for country banks as well) should be doubled, either directly or indirectly; (2) whether the Federal Reserve System should be concerned with day-to-day fluctuations in a member bank's reserve balances so long as its average reserve balances over the prescribed reserve computation period are sufficient.

"A majority of the Banks apparently would be willing to waive, without any conditions, a penalty for a reserve deficiency in a given period if the deficiency was offset by excess reserves in the immediately following period. This would amount to practically the same thing as doubling the length of the reserve computation period--at least for banks which, as a matter of policy, maintain day-to-day reserve balances close to or below requirements, and at the end of the period make adjustments to bring average reserve balances up to average reserve requirements. In this connection, it will be observed from the comments that the Reserve Banks appear to be equally divided on the question of doubling directly the weekly reserve computation period of central reserve and reserve city banks, also that all but one of the banks are opposed to lengthening the semimonthly reserve computation period of country banks. If the period were lengthened only for central reserve and reserve city banks, however, it might raise some question of discrimination against country banks, even though they already operate under a much longer period and do not have as wide fluctuations in deposits and reserves as central reserve and reserve city banks.

"One Reserve Bank is strongly opposed to a provision for offsetting a reserve deficiency in one period by excess reserves in the next period unless coupled with some condition which would discourage wide day-to-day fluctuations in reserves. Another Reserve Bank, on the contrary, feels that day-to-day fluctuations or deficiencies in a bank's reserves should not subject a member bank to criticism so long as the necessary averages are maintained. In the Board's opinion, the law contemplates that member banks should make reasonable efforts to 'hold and maintain' the prescribed reserve balances from day to day, making allowance, of course, for unforeseen fluctuations

FRASER
fed.org/

"in deposits and reserves, even though penalties are assessed on daily average deficiencies over prescribed periods and there is no longer a prohibition against the making of new loans and the payment of dividends while reserves are deficient.

"In view of the differences of opinion as to the conditions, if any, under which penalties might be waived on reserve deficiencies in one period which are offset by excess reserves in another period, the Board has deferred action on all of the proposals pending receipt of further views from the Federal Reserve Banks. For convenient reference in commenting on the questions raised, enclosed is a new draft of proposed revised instructions for waiver of deficient reserve penalties prepared in the light of the comments of the Federal Reserve Banks.

"It is assumed that provisions A, B, D, and E in the new draft would be acceptable to all Federal Reserve Banks, and the Board is willing to approve them.

"Provision C pertains to the waiver of penalties which are offset by excess reserves, and two alternatives for this provision are presented in the new draft. The Board has not acted upon these alternative provisions, but it is inclined towards No. 2, which would permit Federal Reserve Banks to waive a penalty when a member bank (central reserve, reserve city, or country bank) was deficient in reserves during a given reserve computation period, to the extent that the deficiency was offset by excess reserves during the immediately following reserve computation period, provided that the deficiency did not exceed two per cent of the member bank's required reserves. In order to discourage wide day-to-day fluctuations in reserve balances, perhaps there should be an additional proviso, that a penalty could not be waived if a deficiency exceeded 10 per cent of the bank's required reserves on any day during the given reserve computation period or the next period. Since, however, wide fluctuations in reserves take place for the most part at the big money market banks, the Board would like to have your views as to whether the suggested 10 per cent limitation on daily deficiencies should be made uniformly applicable to all member banks in all districts, or whether each Federal Reserve Bank, subject to the 2 per cent limitation contained in alternative No. 2, should deal with such situations in its own district by waiving or not waiving penalties in its discretion according to the circumstances.

"The Board concurs in the views expressed by some of the

FRASER
fed.org/

"Federal Reserve Banks that, if the proposed amended instructions for waiver of penalties are adopted, the terms of provision C should be brought to the attention of all member banks.

"If you should feel that this matter should be referred to the Presidents' Conference, the Board will, of course, be glad to defer action until the Conference has expressed its views."

Approved unanimously.

Letter prepared in accordance with action taken at the meeting of the Board on June 24, 1949, to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of May 30, 1949, requesting that the Board approve a maximum of $30,000 for loans to employees. You state that your Bank has for many years been making loans to employees, using for the purpose funds belonging to employees' clubs, aggregating now approximately $22,300. Two years ago the Board authorized your Bank to use, in addition, $15,000 of its own funds for loans to employees.

"Your request raises the fundamental question whether loans by a Federal Reserve Bank to its employees should be limited to necessitous cases of an urgent character or whether a Federal Reserve Bank should go beyond this scope. The Board feels that a Federal Reserve Bank should not enter into competition for loans with other legitimate lenders and that normally employees should finance their needs from other reputable sources. It believes that loans from the employees' loan fund advanced by the Federal Reserve Bank should be made only in necessitous cases of an urgent character to help an employee out of an emergency and where accommodations can not be obtained elsewhere. As you know, the Board in its letter of March 12, 1948 expressed the opinion, to which it continues to subscribe, that employees' loan funds at Federal Reserve Banks should be kept within reasonably low limits.

"On the basis of experience at the other Federal Reserve Banks, except New York where they have a larger number of employees, an employees' loan fund of $15,000 or less has been adequate to take care of all necessitous loans for the welfare of employees. Accordingly, the Board would not look with favor upon your Bank advancing additional funds to increase the

FRASER
fraser.stlouisfed.org/

"employees' loan fund beyond the $15,000 which it is now authorized to provide. It is assumed that you have given consideration to the establishment of a credit union for the purpose of taking care of the credit needs of employees.

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.

FRASER