

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 19, 1950.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated July 18, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Mrs. Charlotte A. Kelly, a statistical clerk in that Division, be accepted to be effective, in accordance with her request at the close of business July 19, 1950.

Approved unanimously.

Letter for the signature of the Chairman, to Mr. P. T. Sharples, Chairman, The Sharples Corporation, 2300 Westmoreland Street, Philadelphia 40, Pennsylvania, reading as follows:

"Your letter of July 13, 1950, enclosing a copy of your letter to Al Williams submitting your resignation as a Class C Director of the Federal Reserve Bank of Philadelphia, has been brought to the attention of the members of the Board of Governors and it is with great reluctance that the Board accepts your resignation effective today.

"We sincerely regret that there has been some misunderstanding in this matter inasmuch as it has been the view of the Board of Governors for many years that it would be inconsistent with the spirit and underlying principles of the Federal Reserve Act for persons holding political or public office in the service of the United States or any state, territory, county, or political subdivision, or acting as members of political party committees, to serve also as directors or officers of Federal Reserve Banks.

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"Your interest in and contribution to the Federal Reserve System during your service as a director are indeed appreciated. We are confident that you will retain an active interest in the welfare of the System after the termination of your official connection with it and that we may rely on your continued support.

"The members of the Board hope that the personal associations formed within the official family will endure and that you will drop in to see us on your visits to Washington."

Approved unanimously.

Letter to Mr. W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, reading as follows:

"For the reasons given in your letter of July 12, 1950, the Board of Governors approves the payment of \$8,418 by the Federal Reserve Bank of Atlanta to the Federal Reserve Retirement System on behalf of Mr. F. C. Vasterling, Assistant Cashier at the New Orleans Branch."

Approved unanimously.

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

"Reference is made to your letter of July 11, 1950, submitting the request of the Equitable Trust Company, Wilmington, Delaware, for permission to establish and operate a branch at the duPont Experimental Station, New Castle County, Delaware.

"In view of your recommendation the Board of Governors approves of the establishment and operation of a branch at duPont Experimental Station, New Castle County, Delaware, by the Equitable Trust Company, Wilmington, Delaware, provided the prior approval of the appropriate State authorities is obtained; the proposed branch is established within six months of the date of this letter and with

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"the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

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

"This refers to your letter of July 11 regarding the penalty of \$84.86 incurred by the Chelsea State Bank, Chelsea, Michigan, on a deficiency in its reserves for the period ended June 30, 1950.

"It is noted that the deficiency resulted from the failure of the subject bank's correspondent to complete a transfer of funds, that the subject bank did not take cognizance of the warning letter about reduced reserves sent to it by the Detroit Branch because it felt confident that the account would be in good shape by reason of the transfer, and that the bank has not had another deficiency since admission to membership in 1934.

"In the circumstances, the Board authorizes your Bank to waive assessment of the penalty in this case."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., reading as follows:

"This refers to your letter of July 13, 1950, requesting our comments concerning a draft bill 'To authorize the Central Bank for Cooperatives and the regional banks for cooperatives to issue consolidated debentures, and for other purposes', which has been proposed by the Department of Agriculture.

"The proposed bill would authorize the Central Bank for Cooperatives to issue secured or unsecured consolidated debentures on behalf of itself and the 12 regional banks

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"for cooperatives, provided that the amount of consolidated debentures and debentures issued by the Central Bank individually shall not exceed ten times the aggregate capital and surplus of the banks for cooperatives. Under existing law, the Central Bank may issue secured debentures on its own behalf in an amount not exceeding five times its own capital and surplus. There now is, however, no provision for the issuance of consolidated debentures or for the issuance of debentures by the regional banks individually.

"In addition to authorizing the issuance of consolidated debentures, the proposed bill would give the debentures issued by the Central Bank for Cooperatives, either individually or on a consolidated basis, a favored status in various respects. The debentures would become 'exempt' securities under section 5136 of the Revised Statutes so that a member bank of the Federal Reserve System could underwrite and deal in them and could purchase them in amounts in excess of ten per cent of its capital and surplus and without regard to other restrictions of section 5136. Debentures having maturities of not more than six months at the time of their purchase or acceptance as collateral would be made eligible for purchase by the Federal Reserve Banks and for use as security for fifteen-day advances made by the Federal Reserve Banks to member banks under the eighth paragraph of section 13 of the Federal Reserve Act. Further, the debentures would become lawful investments for, and eligible as security for deposits of, Government trust and public funds.

"There appears to be no objection to the issuance of debentures by the banks for cooperatives on a consolidated basis, as well as by the Central Bank for Cooperatives individually. The use of consolidated debentures may have definite advantages, and if the proposed bill involved nothing more than this change in method or procedure, we would have no reason to question it.

"The proposed bill, however, would also increase greatly the amount of the debentures which could be issued. The aggregate capital and surplus of the 13 banks for cooperatives on June 30, 1949 was approximately \$220,000,000. On this basis, the proposed ten-to-one ratio would permit the issuance of well over \$2,000,000,000 of debentures.

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"For the fiscal year ending June 30, 1949, the aggregate credit extended by the banks for cooperatives was \$458,716,717; the month-end peak of credit outstanding was \$308,334,936; the monthly average of credit outstanding was \$274,127,937; and the average credit outstanding was only about 115 per cent of the banks' average net worth. It is apparent, therefore, that the amount of debentures which would be authorized by the proposed bill is not related to the need of the banks for borrowed funds, in the absence of a great increase in the lending operations of the banks.

"The proposed ten-to-one ratio of debentures to capital and surplus is out of line with usual credit standards. The fact that it is permitted in the case of Federal Intermediate Credit banks is cited as a precedent; but there appear to be material differences, particularly in view of the nature of the loans made by the two types of institutions. For example, the Federal Intermediate Credit banks, unlike the banks for cooperatives, deal primarily in 'two-name' paper, with the great bulk of their loans being made to production credit associations and other financing institutions and secured by notes evidencing loans made by the letter. To a large extent, it is this type of paper which is pledged as security for the debentures issued by the Federal Intermediate Credit banks; and, incidentally, their debentures, unlike those which would be authorized by the proposed bill, must be secured.

"Whatever may be the arguments for and against some future increase in the amount of the debentures which may be issued, the advisability of such a proposal must be considered at this time in the light of increasing inflationary tendencies, the possible need for measures of general credit restraint, and the problems of Government fiscal policy in the period ahead. While it is assumed that no immediate use of the increased authority is contemplated, it would seem that the granting of such authority might better be left for consideration at some later date.

"With respect to the granting of a favored status to debentures issued by the banks for cooperatives, as described above, we again do not feel that the precedent set in the case of the Federal Intermediate Credit bank debentures is necessarily applicable; and, in any event, we question the need for or desirability

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"of extending the precedent as proposed. Particularly, we see no reason for permitting a member bank to invest more than 10 per cent of its capital and surplus in such debentures or for opening the door for the extension of Federal Reserve credit to the banks for cooperatives."

Approved unanimously.

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

"Your letter July 13, 1950. Board approves the opening of an account on your books in the name of the Statni Banka Ceskoslovenska (State Bank of Czechoslovakia), subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks. It is understood that you will in due course offer participation in this account to the other Federal Reserve Banks."

Approved unanimously.

Telegram to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reurtel July 17. Suggest that you recall your requests for condition reports as of June 30, 1950 made upon three Transamerica affiliated State member banks in California, namely: Bank of Beaumont, Bank of Newman, and First Trust and Savings Bank of Pasadena, with the express understanding that calls for such reports may be renewed later, depending on future developments. This suggestion is made in view of (1) the reported acquisition of the business of these banks by Bank of America, N. T. & S. A., with the result presumably that if call reports were now required as of June 30, 1950, they would not show any deposit liabilities; (2) the banks were not conducting banking operations on the call date; (3) California State Banking Department treated the banks as being in liquidation on June 30, 1950 and did not request condition reports as of that date; and (4) the June 30, 1950 call report of Bank of America, N. T. & S. A.,

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"presumably includes the loans, investments, and other assets acquired from the banks in question and reflects the deposit liabilities of those banks assumed by Bank of America."

Approved unanimously.

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

"President's message to Congress today recommends authorization for a program similar to the Regulation V program and for regulation of consumer credit.

"Believe prospects are such that Reserve Banks should be considering what organizations they would set up to administer the regulations in order that System may be prepared to move promptly, if called upon to do so.

"Please advise as soon as possible names of officers who would handle the two programs.

"Separate telegram being forwarded re consumer credit matters."

Approved unanimously.

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

"In view of President's request for emergency legislation which provides for reestablishment of consumer credit regulation, we need information regarding terms prevailing in the instalment credit field.

"Accordingly, please advise us concerning terms now prevailing in your district, as well as trends in terms since January 1, 1950, for principal types of listed articles covered by former Regulation W. Please furnish information as to (a) terms extended by majority in the field, and (b) terms generally offered by more liberal dealers and lenders.

"We would also like to know how wide-spread is the practice of extending 'revolving' charge account credits with six months to pay.

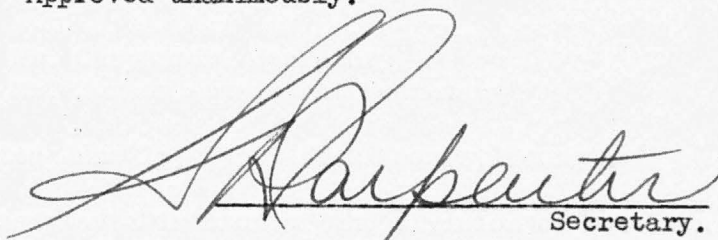
"We would appreciate a spot reply this week,

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"with such supplementary trade information as you are able to compile so as to reach here not later than July 24."

Approved unanimously.


Secretary.