

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 19, 1952. The Board met in the Special Library at 2:30 p.m.

PRESENT: Mr. Evans, Chairman pro tem
Mr. Powell
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Sloan, Director, Division of Examinations
Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics

Before this meeting there had been sent to each member of the Board a memorandum relating to the topics to be discussed at the joint meeting of the Board and the Federal Advisory Council at 10:30 a.m. on Tuesday, May 20, 1952. The memorandum was reviewed and it was agreed that the topics would be discussed with the Council along substantially the lines recorded in the minutes of that meeting.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman 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 May 16, 1952, were approved unanimously.

5/19/52

-2-

Memorandum dated May 7, 1952, from Mr. Leonard, Director, Division of Bank Operations, recommending that Mabel E. Wike, File Clerk in the Office of the Secretary, be transferred to the Division of Bank Operations as Statistical Clerk, with no change in her present basic salary of \$3,030 per annum, effective the date she assumes her new duties. The memorandum also stated that the Office of the Secretary was agreeable to this transfer.

Approved unanimously.

Memorandum dated May 13, 1952, from Mr. Boothe, Assistant Director, Division of Selective Credit Regulation, recommending that William J. Powers, Analyst in that Division, be granted leave of absence without pay beginning June 3, 1952, for the purpose of entering military service, that he be paid one month's unearned salary, together with a lump sum payment for accrued annual leave remaining to his credit as of that date, and that he receive the other benefits outlined in the policy approved by the Board on August 1, 1950, for employees entering military service.

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

5/19/52

-3-

"In accordance with the request contained in your letter of May 13, 1952, the Board approves the appointment of W. S. Dennis, Jr. as an assistant examiner for the Federal Reserve Bank of Atlanta. If the appointment is not made effective June 1, as planned, please advise us.

"It is noted that Mr. Dennis has made arrangements to eliminate his indebtedness to the Citizens and Southern Bank, Atlanta, Georgia. Please advise us when this has been done."

Approved unanimously.

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

"In accordance with the request contained in your letter of May 14, 1952, the Board approves the appointment of William Hugh Low as an assistant examiner for the Federal Reserve Bank of Chicago.

"Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. William K. Kleitz, President, Guaranty Trust Company of New York, 140 Broadway, New York, New York, reading as follows:

"This refers to your letter of April 29, 1952, regarding the ruling made by the Board some months ago with respect to the treatment of cash collateral accounts as deposits for reserve purposes and requesting the Board again to consider this matter.

"The ruling of the Board to which you refer, as published in the September 1951 issue of the Federal Reserve Bulletin at page 1135, was made only after the most thorough study and discussion, over a period of many months, of all

5/19/52

"aspects of this matter. In January 1951, the subject was discussed with counsel for the interested New York City member banks at a conference held in Washington at their request and, subsequently, briefs prepared and submitted by counsel for such banks were carefully considered. Nevertheless, in view of your request, consideration has again been given to the basis for the Board's position in this matter.

"As we understand the facts of the typical case, when a member bank receives funds as collateral for an outstanding letter of credit, a separate 'cash collateral account' is set up on the books of the bank and the funds are mingled with the bank's other cash assets and used in the course of its business; when drafts drawn under the letter are presented to the bank for payment, the amounts of such drafts are charged to such account; and after cancellation of the letter of credit, any balance remaining in the account is paid or credited to the customer. As indicated in the Board's published ruling, the bank remains liable to return to the customer such part of the cash collateral as may not be used for the purpose of reimbursing the bank for drafts paid by it. Moreover, in such a case, it is believed that the funds in the cash collateral account cannot properly be regarded as a prepayment of the customer's liability under the letter of credit, since the amount, if any, of drafts that may be drawn and presented to the bank for payment cannot be determined and the amount of the customer's liability therefore is not definitely known.

"Among other things, we have considered the fact referred to in your letter that the Federal Deposit Insurance Act, passed in 1950, specifically permitted insured banks to exclude cash collateral accounts from their deposits for assessment purposes. As you know, however, the purposes of insurance assessments and of reserve requirements of member banks are different and there are other respects, resulting from the law itself, in which there is lack of uniformity in computing the assessment base of insured banks and the deposit liabilities of member banks for reserve purposes.

"In all the circumstances, after careful review of the matter, the Board feels that funds held in such a cash collateral account should be treated as a deposit liability for

5/19/52

-5-

"reserve purposes and that the Board would not be warranted in taking any position other than that set forth in the ruling published in the September 1951 Bulletin."

Approved unanimously, with a copy to Mr. Sproul, President, Federal Reserve Bank of New York.

Letter to Mr. Olson, Vice President, Federal Reserve Bank of Chicago, in regard to Willys Overland of South Bend, Inc., operating as K-F Motors, 1515 S. Michigan Street, South Bend, Indiana, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of May 7, 1952, in which you recommended that the Board seek an injunction, by consent or otherwise, restraining this dealer from further violation of the Regulation.

"In view of the fact that Regulation W has been suspended it would not be possible now to obtain an injunction; nor would it be possible to suspend the license of the registrant.

"Moreover, customer contacts have not been made, and none can now be made in view of the Board's telegram of May 8, 1952. Accordingly, the case cannot be referred to the Department of Justice because, as you know, the Department will not proceed in a case in which there is no evidence except the registrant's own records.

"In the circumstances the Board is closing its file in this case."

Approved unanimously.

Letter to Mr. Lewis, Vice President, Federal Reserve Bank of St. Louis, in regard to Home Equipment Company, Incorporated, 2529 Summer Avenue, Memphis, Tennessee, a registrant under Regulation W, Consumer Credit, reading as follows:

5/19/52

"Reference is made to your letter of May 2, 1952, in which you recommended that the Board seek an injunction, by consent or otherwise, restraining this registrant from further violations of the Regulation.

"In view of the fact that Regulation W has been suspended it would not be possible now to obtain an injunction; nor would it be possible to suspend the license of the registrant.

"Moreover, customer contacts have not been made, and none can now be made in view of the Board's telegram of May 8, 1952. Accordingly, the case cannot be referred to the Department of Justice because, as you know, the Department will not proceed in a case in which there is no evidence except the registrant's own records.

"In the circumstances the Board is closing its file in this case."

Approved unanimously.

Letter to the Honorable Preston Delano, Comptroller of the Currency, Washington, D. C., reading as follows:

"As indicated in the enclosed press statement, the Board of Governors suspended Regulation W--Consumer Credit, effective May 7, 1952.

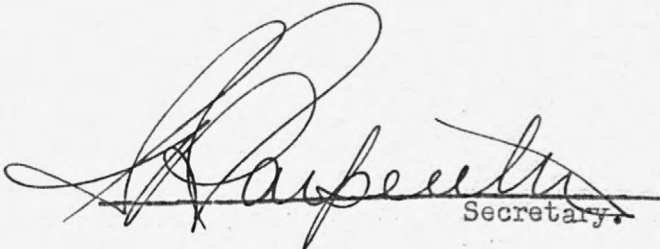
"We have appreciated the assistance your office has given us in the administration and enforcement of Regulation W. Although its suspension makes it unnecessary to continue investigation of Registrants for the purpose of determining whether there is compliance with the terms of the consumer credit regulation, we want you to know that the Board has relied upon your office for the necessary checking of national banks during the period while the regulation was in effect, and that your cooperation in this respect has been sincerely appreciated."

Approved unanimously, together with similar letters to Messrs. Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, Washington, D. C.; William K. Divers,

5/19/52

-7-

Chairman, Home Loan Bank Board, Washington, D. C.; I. W. Duggan, Governor, Farm Credit Administration, Department of Agriculture, Washington, D. C.; James J. Walsh, President, National Association of State Small Loan Supervisors, Springfield, Illinois; C. R. Orchard, Director, Bureau of Federal Credit Unions, Federal Security Agency, Washington, D. C.; and Alexander Chmielewski, President, National Association of Supervisors of State Banks, Providence, Rhode Island.



Secretary.