A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Board's offices in Washington, D. C., on Thursday, March 5, 1953, at 2:45 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Sproul, Williams, Leach, Bryan, Young, Johns, Powell, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.

Mr. Fulton, First Vice President of the Federal Reserve Bank of Cleveland

Mr. Heflin, Secretary of the Conference of Presidents of the Federal Reserve Banks

Before this meeting there had been submitted to the Board a memorandum listing the topics to be discussed at this joint meeting. The topics, the statement of the Presidents' Conference with respect to each, and the discussion concerning them at this meeting were as follows:

1. <u>Amendment of the Loss Sharing Agreement of the Federal Reserve Banks to include coverage of fire and allied risks.</u> The Conference unanimously approved the recommendation of its Committee on Miscellaneous Operations that the proposal of the Insurance Committee to extend the Loss Sharing Agreement to include fire and allied risks, as previously modified with respect to inspections, be approved with a further modification to provide for the establishment of additional and specific reserves aggregating $6,000,000 against such risks. Such reserves would be established by use of current earnings in the year in which the plan is made effective and would be divided among the Reserve Banks in proportion to their Section 7 Surplus and Contingent Reserves at the end of the preceding year (the same basis as that on which losses would be distributed), with rounding of the reserves of individual banks to even ten thousands. The Conference recommends approval of this proposal.

Chairman Martin said that he had received letters from three insurance companies critical of the proposal to amend the Loss Sharing Agreement to include coverage of fire and allied risks, and that a member of the Federal Advisory Council had called on the telephone to say that he had heard some complaints about the matter. Chairman Martin went on to say that he was reporting this only as a matter of information and not for the purpose of suggesting that the plan should be deferred. To the contrary, it was his feeling that the proposal represented a satisfactory solution to the problem.

Chairman Leach said that practically all of the Presidents had received complaints similar to those mentioned by Chairman Martin, that the

Conference had discussed the matter, but that the Conference nevertheless decided to approve the recommendation of the Committee on Miscellaneous Operations.

At the conclusion of the discussion, the members of the Board of Governors indicated that they approved the proposed amendment of the Loss Sharing Agreement of the Federal Reserve Banks and it was understood that the necessary steps would be taken to make the amendment effective.

2. Consumer credit study. The conference agreed with the recommendation of its Committee on Legislation, that the Presidents discuss with the Board the advisability of making a study of consumer credit to determine whether or not it would be desirable for the System to seek legislation giving it power to effect restraint in this field and, if so, the type of legislation needed.

President Sproul made a statement substantially as follows:

The Committee on Legislation recognizes that there is no absolute ratio which defines the point beyond which the amount of consumer credit outstanding becomes dangerous to economic stability. We do know, however, that if consumer credit continues to grow as rapidly as it has recently, trouble can develop in time. If the time comes when new credits begin to fall below repayments, consumer demand for current production will fall. This will be felt first by the consumer durable goods industry, which has been the chief beneficiary of the expansion, then by the capital goods industry, and then by the whole economy. It will exaggerate the whole "boom and bust" cycle which we have been trying to get away from.

Consumer credit is difficult to reach through general credit controls since the cost of such credit is usually not an important consideration of those using it, if, in fact, they know what it costs, and it is ordinarily quite safe and profitable to the lenders. To make general credit controls tight enough to affect consumer credit, quickly and effectively, the System might have to adopt more drastic policies than would be justified in terms of the economy as a whole. Therefore, it seemed to the Committee that it was time for the System to make up its mind whether it wanted affirmatively to seek permanent legislative authority, freely given for the right reasons, to control consumer credit. The power to control such credit heretofore has always been given for some emergency reason and for temporary periods, and has been related to the conservation of scarce materials or to dampening production or consumption in some particular areas. If the System is to make up its mind, further study would be required, with respect to whether the System wanted such powers and, if so, whether they should be of the kind previously authorized. Consideration would have to be given to whether the powers should be exercised at the retail level or further up the line. At the retail level a regulation is difficult to administer and for that reason regulation at the wholesale level would be preferable, if that were found to be feasible. The System should go into the problem actively and decide whether it should affirmatively seek adequate power to regulate consumer instalment credit.

Chairman Leach commented that the Presidents also felt that if the study were made, it should include a study of other methods of enforcement than have been used in the past.

Chairman Martin said that the Board would like to consider how this problem might be approached in the event such a study were to be undertaken, and that it would give the matter prompt consideration and communicate with the Presidents regarding it.

3. Supplementary allowances for members on disability retirement. The Conference had before it the Board's letter of February 6, 1953, stating that the Board approved in principle the approach which the Retirement Committee had taken to the problem of supplementing disability allowances and requesting that the Presidents' Conference submit a recommendation as to the exact formula to be used.

The Committee on Personnel recommended to the Conference that allowances of members on disability retirement be adjusted by the following percentages with the provision that in no case would the additional benefit exceed $300 per annum and no allowance would be adjusted above $3600 per annum:

Members retired prior to	1942	80%
Members retired in	1942-1943	70%
Members retired in	1944-1945	60%
Members retired in	1946-1947	50%
Members retired in	1948-1949	40%
Members retired in	1950-1951	20%
Members retired in	1952	10%

The Conference accepted the plan suggested by its Committee on Personnel and recommends its adoption.

President Johns stated that the formula submitted by the Retirement Committee at the time it recommended the approach that the Board approved in principle was constructed out of data relating to increases in salaries of Federal Reserve Bank employees since 1942 and increases in the cost of living index since that date, the approach differing from that used in the case of the formulae for supplementing service and special service retirement allowances, where the guiding principle was offsetting advantages due to social security coverage. He went on to say that the office of the Federal Reserve Bank Retirement System had since done some further experimenting and had submitted five alternative plans, of which the plan now proposed by the Committee on

Personnel was one. The recommended adjusted allowances, he said, were slightly more liberal than those provided in the report of the Retirement Committee five months ago; the plan would provide additional allowances for 124 persons on disability retirement totaling approximately $28,000 a year at a cost to the System of approximately $377,000. President Johns concluded by stating that complete data regarding the matter had been placed in the hands of the Director of the Board's Division of Personnel Administration.

Chairman Martin said that the Board would consider the matter promptly and advise the Presidents of its views.

4. <u>System consideration of proposed Commercial Code.</u> The Conference accepted the Fourth Report of its Special Committee of Counsel, appointed to consider the proposed Commercial Code and its recommendation that the Federal Reserve System, if and when called upon to take any position with respect to the matter, should neither actively support nor actively oppose the enactment of the Code in its present form. It is expected that the proposed Code will be introduced during 1953 in the legislatures of 14 States. Introduction of the Code in Congress, it is understood, will be deferred pending observation of results in the various State legislatures. The Presidents would like to have the Board's views on this matter.

Chairman Leach said that the Special Committee of Counsel was appointed in 1948, that it had been active since that time under the chairmanship of Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, with Mr. Vest, General Counsel, as the Board's representative, that it had now presented its Fourth Report, which contained a recommendation that the System, if called upon, take no position for or against enactment of the proposed Commercial Code, and that the matter was brought up at this meeting because it was one of System-wide interest and the work of the Special Committee was a System project.

Chairman Martin said that the Board had noted the report of the Special Committee and raised no objection to it.

> 5. Branch building programs. The Conference requests the Board to give continuing consideration to the urgently needed branch building programs of the Reserve Banks with a view to obtaining legislation at the earliest practicable time to permit these programs to go forward.

Chairman Martin stated that he had had discussions with the Chairmen of both the Senate and House Banking and Currency Committees, indicating to them that the Board would like to have the matter taken up at this session of Congress, and that there was no indication of any objection, although the amount of additional authority to be provided might come up for some discussion. It was his hope that a bill might be introduced within the next two or three weeks. Chairman Martin also said that he had discussed the matter in a general way with the Secretary of the Treasury.

Governor Evans commented that authority for an additional $25 million would give a reasonable leeway, based on data furnished to the Board by the Reserve Banks, for the building programs now planned and for changes or additions to the programs and possible increased costs.

6. Employment of technical experts to evaluate electronic machine designed to count and sort one-dollar notes. The Conference accepted the recommendation of its Committee on Miscellaneous Operations that the Subcommittee on Electronics be authorized to employ technical experts to evaluate proposals from two manufacturing companies for a machine to count and sort one-dollar notes. It was understood that the Subcommittee would negotiate for such services on a daily rate basis subject to a total maximum cost of $10,000 and that such cost would be paid by the Federal Reserve Bank of New York and prorated among the Reserve Banks on the customary basis of their proportionate ratio of capital and surplus to the aggregate capital and surplus of the twelve Banks. The Conference recommends Board approval of this project.

President Earhart stated that the Subcommittee on Electronics had been exploring for some time what developments in the electronics field could be adapted for use by the Federal Reserve System, that the Committee felt the need for technical advice or assistance in order to evaluate proposals submitted by two manufacturing companies for producing a machine to count and sort one-dollar bills, that it would like to approach some research organization for such advice, but that it did not want to do so until it had authority to enter into negotiations with them. He further stated that if any ceiling were to be placed on the cost of the technical services, it should be high enough so that the Subcommittee might operate comfortably, and that the matter was brought up for discussion with the Board primarily so that everyone would know what was being done and because this was only a preliminary step in a program which might ultimately involve sizable expenditures if it were decided to go ahead.

Chairman Martin said that the proposal seemed to be entirely in order and that the Board approved the project.

This concluded the discussion of the topics listed for consideration at this meeting.

Chairman Martin then referred to the receipt by the Board recently of a petition for the establishment of a branch of the Federal Reserve Bank of Richmond at Columbia, South Carolina, and stated that the petition was under study by the Board in the light of the information submitted and the position taken by the Board in the past that there was no real need for the establishment of additional Reserve Bank branches. He went on to say that discussion of the application gave rise to the suggestion that a study be made of Federal Reserve Bank and branch territories to determine whether changes in transportation facilities and other conditions since the existing boundaries were established would call for changes in such boundaries to enable the Federal Reserve Banks and their branches to serve their member banks more effectively. The purpose in bringing up the matter at this meeting, Chairman Martin said, was to suggest to the Presidents the desirability of their undertaking to review the situation in their respective districts, without, for obvious reasons, entering into discussions with member banks or others at this stage, to ascertain whether there were any conditions, either in their districts or adjoining districts, which would call for changes in district lines or in their own head office or branch zones. He brought out that the object of this exploratory study would not be to encourage or to discourage additional branches, but that the information, together with the conclusions of the current check collection study, would be helpful in reviewing any changes in Bank or branch territories that might be made.

President Earhart suggested that it might be well to defer the study of Bank and branch territories until the results of the check collection study were available, to which Chairman Martin responded that, while the conclusions of the check collection study would be useful in making any decisions, this was a problem to which the Board and the Presidents should be devoting attention in the interim.

Governor Vardaman commented on the changes in trade trends, concentration of bank deposits, and other elements since the establishment of the existing Reserve districts and branch territories which, if considered in the course of an organized study, might indicate the desirability of reallocating territories between Reserve Banks or establishing additional Banks or branches. At the same time, he said, the availability of information gained from such a study would permit the prompt disposition of any applications for additional branches that might be received. In the circumstances, it was Governor Vardaman's view that the time had come when the Presidents owed it to themselves and to the System to take a positive approach to the problem by instituting a comprehensive study of the existing Reserve districts and branch territories.

Chairman Martin concluded the discussion with the request that the Presidents quietly undertake an informal study of the problem in their respective districts.

Governor Robertson then referred to President Young's comment at the meeting of the Federal Open Market Committee yesterday to the effect that certain member banks in Chicago had been borrowing from the Reserve Bank for the purpose of carrying Treasury bills held for sale to their customers who would want to purchase them for holding over the first of April to avoid the State tax levied on bank deposits held as of that date. He said that there was a question in his mind as to whether this was a legitimate use of Federal Reserve discount facilities since the effect of the transactions seemed to be about the same as though the System were purchasing the bills itself and holding them for resale.

President Young expressed the opinion that the borrowing was a legitimate use of the Federal Reserve discount privilege on the grounds that the Reserve Bank should be of assistance in a situation where there would be a temporary loss of as much as $1 billion in deposits by city banks by the first of April. The member banks, he explained, were purchasing the bills in anticipation of that deposit decrease and were borrowing from the Reserve Bank only about $200 million, which seemed rather small relative to the prospective loss of deposits. He said that formerly the banks tried to get a promise of the bills being available but now they actually purchased the bills in advance and must borrow to carry them and, in his opinion, the Reserve Bank would not be doing its duty if it did not accommodate the member banks in such circumstances. After pointing out that in each case the Reserve Bank was aware what the borrowing was for and what the banks were doing, President Young said that deposits would be going out fast after March 15, that some would go to New York and Cleveland but that the greater amount would go into the purchase of bills. He also said that New York banks were understood to be carrying perhaps $50 to $75 million of bills that could be called upon during the latter part of March.

Governor Robertson stated that his purpose in bringing the matter up was to request that there be an opportunity for full discussion of the subject sometime before the situation began to develop again in 1954.

President Young agreed that it would be desirable to have a full discussion because the question had been raised practically every year. However, he said, the problem would not be finally settled until there was an amendment to the State law to make the operation unnecessary.

Chairman Martin suggested that it be understood that the subject would be brought up for discussion sometime during the forthcoming year, and there was agreement with his suggestion.

Thereupon the meeting adjourned.

Secretary