

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, October 8, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel

Pursuant to the understanding at the meeting yesterday, there had been prepared a draft of letter to the Presidents of all Federal Reserve Banks concerning the questions which had been raised by the Federal Reserve Bank of Chicago regarding the proposed program of Commodity Credit Corporation for the sale of certificates of interest in pools of notes evidencing loans under various commodity loan programs other than cotton.

Following a discussion, unanimous approval was given to the letter in the following form:

As you know, Commodity Credit Corporation plans to inaugurate in the near future a program for the sale of certificates of interest in pools of notes evidencing loans under various CCC commodity loan programs other than cotton. In this connection, certain questions have been raised regarding the proposed certificates of interest, namely: whether they would be exempt from statutory lending limitations; whether they would be eligible for rediscount; and whether the Board would grant blanket permission for the use of such certificates as collateral for advances to member banks where the certificates have been acquired from nonmember banks for the purpose of providing credit to nonmember banks. It is

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believed that it would be undesirable for the Federal Reserve Banks to circulate the answers to these questions to all member banks, but it has been suggested that the Board advise the Federal Reserve Banks regarding the questions in order that they may be in a position to answer uniformly inquiries from individual banks.

It is understood that the Office of the Comptroller of the Currency has taken the position that the certificates of interest in question would be exempt from the limitations on loans by national banks to one borrower prescribed by section 5200 of the Revised Statutes, by reason of Exception (10) of that section. Whether or not they would be similarly exempt from lending limitations of State laws is, of course, a question which would have to be determined by the various State authorities.

The proposed certificates of interest would be eligible for use as collateral for advances by Federal Reserve Banks to member banks under the provisions of section 2(a) of Regulation A, as amended in 1949, assuming that the underlying notes in which such certificates evidence an interest have maturities of not more than nine months.

The certificates of interest, however, would not be eligible for rediscount by the Federal Reserve Banks since they would not be negotiable and since section 1(h) of Regulation A waives the negotiability requirement of the regulation only with respect to producers' notes evidencing loans under CCC programs and does not waive such requirement as to certificates of interest in pools of such notes.

The Board feels that it would not be desirable for it to grant blanket permission for the acceptance of the proposed certificates of interest as collateral for an advance to a member bank where the certificate has been acquired by the member bank from a nonmember bank and the advance is made for the purpose of providing credit to such nonmember bank. However, it should be clearly understood that, under section 4(a) of Regulation A, any such certificate in the hands of a member bank is eligible as collateral for such an advance if the certificate was purchased by the member bank on the open market or otherwise acquired in good faith and not for the purpose of obtaining credit for the nonmember bank.

Mr. Hackley referred to the discussion at the meeting yesterday regarding the legal authority under which the above-mentioned certificates

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of interest would be issued and the extent to which such certificates would be "backed" by the United States Treasury. He said that following the meeting, representatives of the Federal Reserve Banks of New York and St. Louis called him on the telephone to say that questions along those lines had been raised by banks in their respective areas. Mr. Hackley then related the substance of a telephone conversation which he had had with Mr. Rulon Gibb, Treasurer of Commodity Credit Corporation, who read to him a part of a draft of the announcement which the Corporation proposed to make concerning this point which indicated that the point had been fully considered. A memorandum of the telephone conversation has been placed in the Board's files.

Mr. Hackley added that Mr. Gibb indicated he would send him copies of the draft of the proposed announcement as well as drafts of operating instructions which were to be discussed at a meeting today at the Federal Reserve Bank of Chicago between representatives of the Reserve Bank and Commodity Credit Corporation.

It was understood that Mr. Hackley would transmit informally to the Federal Reserve Banks of New York and St. Louis the information which he had obtained from Mr. Gibb.

Referring to the discussion of the matter at the meeting yesterday, Governor Robertson said that there had been prepared and transmitted to Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, a suggested

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Paragraph concerning the treatment of the above-mentioned certificates of interest in bank condition reports for inclusion in a letter which was proposed to be sent by the American Bankers Association to its member banks. He said that the language of the suggested paragraph was along the lines which he mentioned at the meeting yesterday, that he understood Mr. Bartelt thought the Association would accept it, and that Mr. Bartelt was to let him know if there were any further questions.

Governor Robertson then stated that he discussed yesterday with Mr. Carl M. Flora, Chairman of the Advisory Board to the Instalment Credit Commission of the American Bankers Association, a suggested program for the meeting of the Advisory Board with the Board of Governors on November 9, 1953, which would be held pursuant to the invitation which was authorized by the Board on September 10, 1953. Governor Robertson said he had suggested to Mr. Flora that the program of the meeting following luncheon consist of (1) a discussion by the Board's research staff of the general economic situation and of the consumer credit statistics available to the Board, (2) presentation to the Board by the individual members of the visiting group of such information on the subject of consumer credit as they might wish to submit, and (3) an explanation by Mr. Flora of the program of the Instalment Credit Commission. The other members of the Board present indicated that they would have no objection to a program of this type.

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All of the members of the staff except Messrs. Carpenter and Kenyon then withdrew from the meeting.

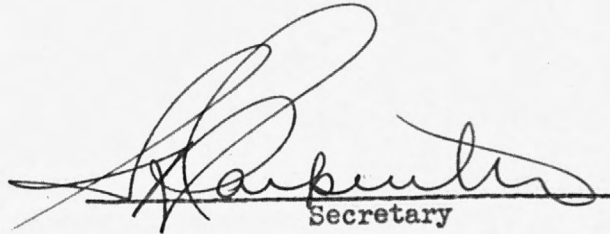
Governor Mills referred to a memorandum dated October 6, 1953, from Mr. Young, Director, Division of Research and Statistics, in which Mr. Young stated that he had been invited by the Ford Foundation to serve as a member of an Advisory Group of the Foundation's Division of Economic Development and Administration. The memorandum, which listed the names of others who had been asked to serve on the Advisory Group, stated that the Group would have two or three meetings in New York City over the fall to formulate a framework for a Foundation program in the area of measures to strengthen the domestic economy.

Following a discussion, it was the consensus of the members of the Board present that it might be inadvisable, because of the demands upon Mr. Young's time and for other reasons, for him to accept the invitation. It was understood, however, that, if Mr. Young should indicate to Governor Mills that there were other considerations which should be taken into account in making a decision, the Board would discuss the matter further.

The meeting then adjourned. During the day the following additional action was taken by the Board with all of the members except Governor Szymczak present:

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 7, 1953, were approved unanimously.


Secretary