

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 12, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Szymczak  
 Mr. Vardaman  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Fauver, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Horbett, Associate Director, Division of Bank Operations  
 Mr. Solomon, Assistant General Counsel

There was presented a request from Mr. Young, Director, Division of Research and Statistics, for authority to travel to New York, New York, on October 19, 1955, to attend a luncheon meeting of the New York Bank Economists' group.

Approved unanimously.

Reference was made to a letter dated August 29, 1955, from Mr. William F. Kann, Manager of the Canadian Department, Bache & Co., New York, New York, to the Chairman of the Securities and Exchange Commission raising several questions having to do with the extension of credit to United States residents on Canadian securities where the transactions occur partly within and partly outside the United States. The letter had been

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referred to the Board by the Securities and Exchange Commission following acknowledgment, and it was understood that the Commission desired an opportunity to consider the Board's tentative conclusions before a reply was sent. Accordingly, there had been sent to the members of the Board copies of a memorandum from Mr. Solomon dated October 7, 1955, submitting a draft of reply to Mr. Kann which it was proposed would be sent to the Securities and Exchange Commission for comment before being transmitted.

Mr. Solomon said that questions had been presented from time to time regarding the applicability of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, to transactions occurring partly within and partly outside the United States and that in view of the varied factual situations that might exist in such cases the Board had been reluctant to express an opinion except on the basis of all of the relevant facts of a specific case. The draft of reply to Mr. Kann, therefore, was restricted to qualified statements of a rather general nature.

In discussing the matter, members of the Board observed that Mr. Kann's questions appeared to be quite specific and they inquired whether it would not be possible to reply to them in a more detailed manner than proposed in the draft of reply. In response, Mr. Solomon brought out that the questions were susceptible of various interpretations and that the Legal Division considered it desirable to be rather guarded in commenting

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upon them. He also pointed out that the subject was an extremely complicated one involving questions of interpretation on which the Board had never ruled.

In the circumstances, the suggestion was made that the Federal Reserve Bank of New York be asked to get in touch with Mr. Kann for the purpose of obtaining some clarification of the facts involved in particular situations of the kind referred to in his letter, it being thought that on the basis of such additional information the Bank or the Board would be in a better position to be responsive to Mr. Kann's inquiries. In this connection, it was also suggested that a letter be sent to Mr. Kann stating that he might expect to hear from the Federal Reserve Bank of New York shortly.

The suggested procedure was approved unanimously.

During the foregoing discussion Mr. Hackley, Assistant General Counsel, entered the room.

At the meeting yesterday, consideration was given to the response which should be made to a letter from Mr. Nelson D. Miller, President of the Southwest Acceptance Company, Inc., San Antonio, Texas, who had written Chairman Martin regarding problems created for smaller finance companies through the increased use of instalment credit at a time when monetary and credit policy was directed toward restraint. Pursuant to

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the understanding at that meeting, a revised draft of reply had been prepared and copies had been sent to the members of the Board.

Following a discussion during which a further change in the proposed reply was suggested, unanimous approval was given to a letter for the signature of Chairman Martin to Mr. Miller reading as follows:

This is in reply to your interesting letter of September 20, 1955, with respect to restraint on the extension of instalment credit.

The Board is aware of the problems created by the increased use of instalment credit in our economy and is pleased to have your comments in that connection. We are studying this matter carefully.

As you know, the authority under which Regulation W was most recently issued was contained in the Defense Production Act of 1950 and that authority expired on June 30, 1952.

At the meeting yesterday, Governor Balderston referred to a letter addressed to Chairman Martin under date of September 28, 1955, by Mr. Homer J. Livingston, outgoing President of the American Bankers Association, who advised that the Association had approved the report of the Joint Committee on Check Collection System dated June 15, 1954, as subsequently amended, and that the Association was prepared to participate in carrying out the report's recommendations. In view of the fact that the report had not yet been accepted by the Association of Reserve City Bankers, he raised for consideration the question whether the American Bankers Association should be asked to consider the possible effect of releasing

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at this time any correspondence with the Board concerning approval of the report.

As stated at yesterday's meeting, a proposed reply to the American Bankers Association had been sent to the Presidents of the Federal Reserve Banks with a request for comments or suggestions. Replies having been received from all of the Presidents, there had been sent to the members of the Board prior to this meeting copies of a staff memorandum dated October 11, 1955, summarizing the comments and submitting a draft of reply to the American Bankers Association. The memorandum indicated that the suggestions were relatively minor in character, except for a question raised by Mr. Powell, President of the Federal Reserve Bank of Minneapolis, who commented on a sentence in the draft of letter which would state that the Federal Reserve System would carry out the spirit of the report with regard to the handling of cash letters received from member and nonmember banks under instructions to credit the proceeds to the account of a designated correspondent member bank. Mr. Powell said that this might permit the receipt of cash letters from all nonmember banks, including nonpar banks, and that he doubted whether the Reserve Bank Presidents had intended to go that far in accepting the principles of the report.

With regard to the question of procedure which he raised at yesterday's meeting, Governor Balderston said that after thinking over the matter, he had reached the conclusion that the American Bankers Association

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would be well aware of the reasons why the report of the Joint Committee on Check Collection System had not yet been approved by the Association of Reserve City Bankers and that in the circumstances it would be unnecessary to take up with the American Bankers Association the question of public disclosure of its correspondence with the Board of Governors.

The draft of letter to the American Bankers Association was then reviewed in some detail and several suggestions for changes were agreed upon. The principal changes were designed to set forth clearly the objective of the Federal Reserve in participating in this program and to give assurance that the Federal Reserve would cooperate fully in implementing the recommendations contained in the Joint Committee's report.

With regard to the question raised by President Powell, Mr. Horbett said that from a review of the file it seemed clear that there was no intention that a Federal Reserve Bank would be obliged to accept deposits of checks from nonpar banks for credit to the account of correspondent member banks. He also said that the action of the Conference of Reserve Bank Presidents in tentatively accepting the Committee's report and later ratifying that action quite evidently was with the distinct understanding that each Federal Reserve Bank would have a choice in the matter of receiving deposits of checks from nonmember banks.

Governor Mills then made a statement in which he said that the historical record of the Joint Committee was clear and straight should any question arise which necessitated reference to that record.

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In view of these comments, it was considered unnecessary to mention the point referred to by President Powell in the letter to the American Bankers Association.

At the conclusion of the discussion, unanimous approval was given to the following letter for the signature of Chairman Martin to Mr. Fred F. Florence, President of the American Bankers Association, with the understanding that copies would be sent to Mr. Livingston, to the Reserve Bank Presidents, and to Mr. John H. Wurts, Chairman of the Joint Committee on Check Collection System:

The Board of Governors is pleased to learn from Mr. Homer J. Livingston's letter of September 28 that the American Bankers Association has approved the report of the Joint Committee on Check Collection System and that the Association is prepared to participate in carrying out the recommendations of that report.

The objective of finding new ways to expedite the handling of the nation's checks through more efficient methods will benefit the banking system and, even more important, as your letter points out, will enable the banking system to serve the general public more effectively.

The recommendations of the Joint Committee have been approved by the Board of Governors and the Federal Reserve Banks and they stand ready to cooperate in putting them into effect. The understanding with which the American Bankers Association approved the report is entirely correct.

The Federal Reserve System will, of course, carry out the spirit of the report with regard to the handling of cash letters, including observance of instructions to credit the proceeds to the account of a designated correspondent member bank. As a matter of fact, established practice assures that proceeds of cash letters collected by the Federal Reserve Banks will be transferred promptly in accordance with instructions from the depositing bank; but, consistent with their

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proper role, the Reserve Banks cannot undertake to guide the decisions of banks with respect to giving such instructions.

The Board concurs wholeheartedly in your comment that the work of the Joint Committee was an excellent example of private commercial banks and the Federal Reserve System working together toward a common goal.

During the foregoing discussion Mr. Thomas, Economic Adviser to the Board, joined the meeting.

Governor Balderston stated that at the invitation of members of the Council of Economic Advisers he and Mr. Riefler, Assistant to the Chairman, attended a meeting on Friday, October 7, at which various Government agencies interested in mortgage credit were represented. At the meeting, Governor Balderston said, he was asked whether the Board of Governors intended to clarify the System's position with respect to mortgage warehousing, to which he responded that the Board had not taken a position on this matter, although the President of the Federal Reserve Bank of New York had held a meeting with certain commercial bankers in that area. Governor Balderston went on to say that when it was suggested that there might be a misunderstanding with regard to Federal Reserve policy that should be made clear, he and Mr. Riefler replied that the President of the New York Reserve Bank no doubt had in mind the growth of mortgage warehousing, that it seemed entirely proper for a Reserve Bank President to call in local bankers and discuss such a subject, but that the distinctions between proper use and misuse of a device such as



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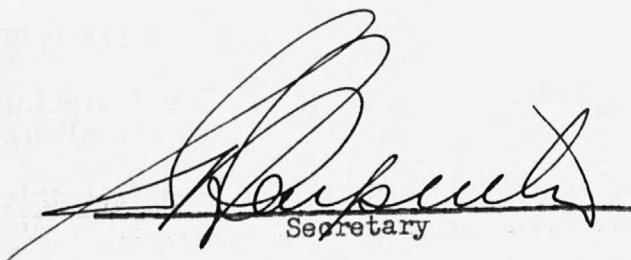
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mortgage warehousing would be very difficult to set forth in a statement and it seemed doubtful whether clarification could be achieved in that way. Governor Balderston said that a member of the Council also asked whether the Federal Reserve Banks were using the discount mechanism to discourage mortgage warehousing, to which he replied by saying that no report of that kind had come to the attention of the Board of Governors.

Chairman Martin stated that he concurred in Governor Balderston's view that no statement should be issued by the Board, and the other members of the Board expressed agreement.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 11, 1955, were approved unanimously.

The meeting then adjourned.



Secretary