

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 17, 1940, at 4:00 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. McKee  
Mr. Davis  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Nelson, Assistant Secretary  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Van Fossen, Assistant Chief of the Division of Bank Operations  
Mr. Vest, Assistant General Counsel

Mr. McKee stated that following the meeting of the Board on October 9, 1940, further study was made of the situation with respect to leave and benefits to be granted to employees called into the military service and that he would like to present certain phases of the matter for consideration by the Board. It was stated that it had been ascertained that Government departments could not make salary payments to employees covering any part of the period of their military service and Mr. McKee said that the question was whether the Board should do anything for its employees beyond that which various Government departments had authority to do. Reference was also made to the fact that there was a question whether, if the Board should make salary payments to its employees called into the military service, the paymasters of the Army or Navy might feel that they could not pay the employees the regular service pay if the total of the payments by

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the Board and the service payments exceeded \$2,000 per annum.

Mr. McKee then presented a memorandum which read as follows:

"The following table shows the number and annual salaries of male employees between the ages of 21 and 36 at the Board and at the Federal Reserve Banks, and the number of employees of the Board and the Banks not within such ages who are now members of one of the reserve components of the military or naval services:

	Board employees		Federal Reserve Bank employees	
	No.	Annual salaries	No.	Annual salaries
From age 21 to age 36				
Married	74	\$198,920	1,651	\$2,706,397
Single	57	114,950	1,120	1,447,283
Total	131	313,870	2,771	4,153,680
Not between ages of 21 and 36 but members of a reserve component of the military or naval service	3	21,800	55	100,568
Total	134	335,670	2,826	4,254,248

"The estimated cost to the Banks and to the Board of purchasing one year's service credit in the Retirement System for the above employees on their return from military service, and the estimated annual cost of purchasing \$1,000 of National Service Life Insurance for each employee, are as follows:

	Estimated cost of one year's service credit	Estimated annual cost of \$1,000 of 'National Service Life Insurance' for each employee
Board employees	\$6,653	\$1,077
Bank employees	85,085	22,721

"Current contributions to the Retirement System for the benefit of these employees are much larger than those shown above, because they include payments to cover death and disability benefits while in service.

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"With respect to the Board's employees, it is suggested that the Board give consideration to advising all male employees between the ages of 21 and 36, other than temporary employees, and other employees that belong to one of the components of the military or naval service, as follows:

1. That if they are called for military or naval service and apply for reemployment within 40 days after they are released from such service, are still qualified to perform the duties of their former position or one of equal status, they will be considered as having been in an indefinite furlough status and will be restored to their former position or to a position of like seniority, status, and pay and reinstated in the Retirement System without loss of credit for service previously rendered.
2. That if and when they are reemployed, as above described, within two years after they enter military service, the Board will pay into the Retirement System for their benefit an amount sufficient to give them the same service credit, based on the Board's contributions, for the period of military service or duty as they would have earned if there had been no interruption in their service, and that similar payment by the employee to the Retirement System shall be optional with the employee.
3. That on application therefor they will be granted such leave with pay as may be due them at the time they enter military or naval service.

"In setting forth the above suggestions, the provisions of the law affecting Government employees have been kept in mind and so far as it is known the suggestions would not run counter to the intent of Congress.

"Determination of the status of employees at the Federal Reserve Banks in this respect is becoming increasingly pressing and it is understood that the Committee appointed by the recent Presidents' Conference to confer with the Board on this subject is anxious to meet with representatives of the Board to work out a plan applicable to

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"employees at the Federal Reserve Banks as soon as such meeting can be conveniently arranged. It is suggested that Mr. Peyton, Chairman of that Committee, be advised that representatives of the Board will be glad to discuss these matters with the Presidents' Conference Committee on Monday, October 21, or at such other date as may be found convenient. Since the Federal Reserve Banks are not operating under the same laws as do the Government departments, and since Congress has evidenced a desire that reasonably liberal treatment be given to employees who are drafted into military or naval service, it is thought that the Federal Reserve Banks may be justified in doing somewhat more for their employees who are called for military or naval service than the Board might be justified in doing for its employees. It is suggested that Mr. Peyton be advised of what the Board intends to do for its employees but that it does not feel that the plan to be followed by the Federal Reserve Banks need necessarily be the same as that followed by the Board."

During a discussion of the memorandum, Mr. McKee stated that he would like to have the special committee appointed at the last Presidents' Conference come to Washington on October 21 for a discussion of the problems involved.

Reference was made to the question whether it would be possible for the Board and the Federal Reserve Banks to adopt a uniform policy and the suggestion was made that the Federal Reserve Banks might find it necessary to adopt a somewhat more liberal policy than the Board in order to conform more closely to the policies adopted by banking and business institutions in the local communities. On the other hand, Mr. Eccles said there were large numbers of employees of the Federal Government and its agencies in Federal Reserve Bank and branch cities and he questioned whether the Reserve Banks should adopt a more

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liberal policy than was followed by the Government with respect to such employees.

Inquiry was made with respect to the policies being followed by the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Home Owners' Loan Corporation, and Mr. Smead stated that the first two felt that they were required by law to conform to practices followed by the various departments of Government and that the Home Owners' Loan Corporation felt that since its funds were considered to be Government funds it should not adopt a more liberal policy, although it did intend to grant employees their accumulated annual leave in cases where the payments thus made, when added to the service pay, did not exceed \$2,000 per annum. Mr. Van Fossen stated that he had been informed that the Reconstruction Finance Corporation had not determined upon the policy that it would follow.

Mr. McKee said that he was ready to recommend the adoption of the three numbered suggestions contained in the memorandum referred to above, that he might wish to consider later the additional step of paying some part of the cost of employees' insurance while in the service.

This latter point was discussed at some length and the members indicated that they would be favorably inclined to an arrangement under which the Board would offer to each employee called into the service to pay the cost of insurance provided by the Government in an amount

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equal to the nearest \$500.00 multiple above the employee's current annual salary, particularly in view of the fact that the life insurance feature of the Federal Reserve Retirement System would be automatically terminated during the period of absence on leave without pay. No decision was reached on this matter but it was understood that it would be discussed with the Presidents' committee.

Mr. McKee also raised the point whether, in view of the fact that the Board had approved a policy of paying up to six months dismissal pay to employees of the Board and the Reserve Banks whose services were no longer required, an arrangement might be made under which a similar payment would be made to employees who return to the Board's employ from military service. The members of the Board present felt that, in view of the fact that the circumstances were materially different in the two cases, this arrangement would not be a feasible one.

At the conclusion of the discussion, upon motion by Mr. McKee and by unanimous vote, the Board approved the three numbered recommendations contained in the memorandum above referred to, with the understanding that they would be discussed by Mr. McKee with the Presidents' committee on October 21 and that the Board would not meet with the committee unless questions were presented which required action by the Board.

Mr. Morrill stated that if the Board and the Banks were going to commit themselves to pay to the Retirement System upon the return of an employee at the end of his military service an amount sufficient

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to give him the same service credit, based on the Board's contribution, as he would have earned if there had been no interruption in his service, it might be well to consider the advisability of making these payments currently so that they would be available for the purpose upon the employee's return. Mr. Smead suggested that the payments might be made regularly to the Retirement System with the understanding that, if the employee did not return, the future assessments of the employing bank would be reduced accordingly.

Mr. Eccles referred to the number of routine reports and memoranda passing over the desks of the members of the Board and expressed the opinion that at least some of them could be eliminated, thereby obviating the work necessary for their preparation.

The matter was discussed briefly and it was agreed that each member of the Board would indicate to the Secretary's Office any of the material that he was not interested in seeing regularly.

At this point Messrs. Nelson, Smead, Van Fossen, and Vest left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 16, 1940, were approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank

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of Minneapolis, reading as follows:

"Your letter October 14 regarding rates on industrial advances. Board is prepared to approve for your bank schedule of rates on 13b loans which will enable bank to charge same rate on its participation as rate charged by financing institution on portion of loan for which it is obligated. If Reserve Bank desires to be in position in any case to charge lower rate to financing institution on the portion of the loan on which the financing institution is obligated or in recognition of latter servicing the loan, schedule should be fixed accordingly."

Approved unanimously, with the understanding that a copy of the telegram would be sent by wire to the Presidents of all Federal Reserve Banks.

Letter to the board of directors of "The Etna Bank", Etna Green, Indiana, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

"7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating \$588.82, as shown in the report of examination of such bank as of September 23, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Etna Bank', Etna



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"Green, Indiana, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Director, Department of Financial Institutions for the State of Indiana, for his information.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, you are authorized in accordance with the general authorization previously granted by the Board, with which you are familiar, to waive compliance with condition of membership numbered 6 until further notice."

Letter to the board of directors of the "Bank of Greene, Incorporated", Stanardsville, Virginia, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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Approved unanimously, together with a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Greene, Incorporated', Stanardsville, Virginia, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the Commonwealth of Virginia for his information.

"In accordance with the recommendation made in this case, the usual condition of membership regarding the elimination of estimated losses has not been prescribed. It is understood, however, that the Reserve Bank will see to it that the reserve of \$6,500 established by the bank against depreciation in securities is treated as a valuation reserve in reports of condition and published statements, unless applied, of course, and that provision is made for the relatively small balance of the amount classified. It is assumed in this connection that the bank now understands the manner in which the reserve should be treated and that you have, or will obtain, assurances that the reserve will not be included in the capital account in reports of condition and published statements."

Letter to the board of directors of the "Citizens State Bank", Marshall, Indiana, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously for transmission through the Federal Reserve Bank of Chicago.

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Memorandum dated October 10, 1940, from Mr. Wingfield, Assistant General Counsel, and Mr. Leonard, Assistant Chief of the Division of Examinations, recommending that, for the reasons stated in the memorandum, Mr. Paulger, Chief of the Division of Examinations, be authorized to contact the Presidents of five or six of the Federal Reserve Banks and arrange with them for operating men selected by him to come to Washington at an appropriate date to consult with Messrs. Wingfield and Leonard regarding certain questions in connection with Federal banking laws which would be raised in answering questions in the Wagner Questionnaire.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. Paulger  
Chairman.