

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 18, 1941, at 12:45 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 17, 1941, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on November 17, 1941, were approved unanimously.

Memorandum dated November 12, 1941, from the Personnel Committee recommending that Edwin J. O'Brien, Jr., leaf tobacco dealer of Louisville, Kentucky, be appointed as director of the Louisville Branch of the Federal Reserve Bank of St. Louis for the three-year term beginning January 1, 1942, to succeed Mr. J. B. Hill.

Mr. Szymczak was requested to ascertain whether Mr. O'Brien would accept the appointment if tendered to him.

Letter to the board of directors of "The Farmers and Merchants

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Bank of Hill City", Hill City, Kansas, 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 Kansas City.

Approved unanimously for transmission through the Federal Reserve Bank of Kansas City.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of October 24, 1941, with enclosures, relating to the absorption by member banks of exchange charges on nonpar items deposited with them for collection. It is noted that as the result of a report of a special committee of the Dallas Clearing House Association, it has been requested by Mr. Nathan Adams, President of the First National Bank of Dallas, that you submit to the Board of Governors for its consideration the advisability of the issuance by the Board of a ruling to the effect that the absorption of exchange charges is an indirect payment of interest in violation of the Federal Reserve Act.

"As indicated by you in your letter to Mr. Adams of October 24, 1941 a definition of the term 'interest' which included a provision regarding the absorption of exchange charges was at one time contained in the Board's Regulation Q, although this definition was never made effective. The present provision of Regulation Q on this subject, like that contained in the regulations of the Federal Deposit Insurance Corporation applicable to insured nonmember banks, is merely that 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest'. As you know, this provision was adopted only after extended discussions and negotiations and was announced in a press statement dated February 12, 1937 issued jointly by the

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"Board of Governors and the Federal Deposit Insurance Corporation. Regarding the inclusion of the absorption of exchange charges in the definition of the term 'interest', it was stated that 'the present action of the Board of Governors removes this finding or specification from its regulation'.

"In a letter dated March 18, 1937 (F.R.L.S., #6231) the Board took the position that for the present it would not attempt to issue detailed interpretations or rulings with reference to questions as to whether the absorption of certain expenses constitutes a payment of interest, but would rely upon the cooperation and good faith of the member banks in adapting their practices to conform to the spirit and purpose of the statutory provisions prohibiting the direct or indirect payment of interest on demand deposits.

"In the circumstances, the Board does not feel that it would be practicable at this time to depart from the policy which it established in 1937 by attempting to rule on the question whether the absorption of exchange charges constitutes a payment of interest. As you point out, however, the Board is much interested in the subject, and it is very glad to have the information submitted with Mr. Adams' letter.

"We will be glad to have you advise Mr. Adams in accordance with the above."

Approved unanimously.

Telegram to Mr. Thomas W. Doig, Assistant Managing Director of the Credit Union National Association, Inc., Madison, Wisconsin, reading as follows:

"Re your letter of November 10 enclosing proposed draft of circular letter transmitting registration form under Regulation W to all State-chartered credit unions.

"Proposed draft appears correct and adequate with following exceptions:

1. First sentence on first page and last sentence on second page indicate that registration is for a license to function during 1942. This is not correct, as each Registrant's license will run for indefinite period.

2. Your instructions for items III-A-2 and 3 do not call attention to fact that Registrant may first

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"calculate (or estimate) item III-A-2 and then deduct this amount from total loan balance as shown by ledger in order to obtain item III-A-3. This point may help some treasurers.

3. You may wish to suggest, rather than instruct, that form be filled out by typewriter, since use of typewriter is not required by Board's instructions.

4. Your instructions do not include any directions to credit unions as to which Federal Reserve district they are in and therefore the Bank at which they should file statement. A map of Federal Reserve districts is included in Federal Reserve Bulletins; perhaps you could use a cut from this.

It is assumed that the only differences between your final letter and draft which you sent us will be such changes as you may decide to make with respect to the above points and such editorial changes as you may decide upon. In that case, there is no need of any further clearing with this office.

"When the letter is duplicated for distribution, please send 75 copies to Board of Governors, attention Dembitz.

"We wish again to express appreciation for your generous cooperation in transmitting registration statement and in other matters pertaining to regulation."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris

Secretary.

Approved:

Frank Ransom
Vice Chairman.