

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 30, 1942, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
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 herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 28, 1942, were approved unanimously.

Memorandum dated March 26, 1942, from Mr. Wyatt, General Counsel, recommending that Miss Nancy Duvall Kengla be appointed as a law clerk in the Office of General Counsel, with salary at the rate of \$2,000 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated March 27, 1942, from Mr. Nelson, Assistant Secretary, recommending that James F. Hamilton be appointed as a junior operator (duplicating devices) in the Secretary's Office on a temporary basis for an indefinite period, with salary at the rate of

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\$1,140 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of "The Manufacturer's Bank of Cohoes", Cohoes, New York, 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 New York.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Manufacturer's Bank of Cohoes', Cohoes, New York, 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 Superintendent of Banks for the State of New York for his information.

"As recognized in the report of membership examination and the presentation memorandum submitted by the Reserve Bank, the applicant has some serious management problems. The application has been approved with the understanding that the Reserve Bank will follow the situation closely to see that the operating methods of the bank are improved and the objectionable practices corrected."

Letter to the board of directors of "The Bank of Westchester",

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Yonkers, New York, 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 New York:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$14,273 as shown in the report of examination of such bank as of December 20, 1941, made by an examiner for the Federal Reserve Bank of New York."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Bank of Westchester', Yonkers, New York, 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 Superintendent of Banks for the State of New York for his information.

"As was brought out in the report of examination for membership and in the presentation memorandum, the policies of the applicant bank are still in a formative stage and there is a real need for an operating executive. Recognizing the fact that the active management should be strengthened, the Federal Deposit Insurance Corporation in cooperation with the Reconstruction Finance Corporation made it a condition incident to the recent consolidation that the directors of the applicant bank would create the position of Executive Vice President to be filled by a qualified person whose appointment was to be made within 90 days from the date of the merger which became effective December 20, 1941. The application is approved with the understanding that prior to

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"admission to membership the services of an Executive Vice President satisfactory to the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation shall have been obtained.

"Enclosed is a letter approving the retention and operation of branches at Mt. Kisco, New York and Larchmont, New York, which you are requested to forward to the board of directors of the applicant bank. Enclosed also is a copy of the letter for your files.

"Standard condition numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York."

In connection with the above matter, the following letter to the board of directors of "The Bank of Westchester", Yonkers, New York, was also approved unanimously:

"In connection with the application for membership in the Federal Reserve System, the Board of Governors of the Federal Reserve System approves the retention and operation by 'The Bank of Westchester', Yonkers, New York, after admission to membership, of the branches at Mt. Kisco, New York, and Larchmont, New York, the establishment of such branches having been approved by the Superintendent of Banks for the State of New York effective as of February 29, 1940, and December 20, 1941, respectively."

Letter to Mr. Clark, Vice President of the Federal Reserve Bank of Atlanta, prepared following action taken at the meeting of the Board on March 10, 1942, reading as follows:

"This refers to your letter of January 29, 1942, enclosing a copy of an opinion of your Counsel, regarding the classification as savings deposits of certain accounts carried by the Georgia Railroad Bank & Trust Company, Augusta, Georgia, in the name of the University of Georgia School of Medicine.

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"It is understood that one of the accounts in question consists of funds received by the University of Georgia School of Medicine as donations, gifts, and bequests and that the other accounts consist of funds derived from the proceeds of the sale of medical equipment and from certain fees and deposits assessed against students.

"It appears that under State law the Board of Regents of the University of Georgia is declared to be a governmental agency of the State and that all property held by it is declared to be the property of the State, except that donations, gifts, or bequests made to the University or to any branch or division thereof are not affected by this provision of the law. In view of this statute, Counsel for your bank has expressed the opinion that funds in the first account, consisting of donations, bequests or gifts, are not the property of the State and may therefore properly be classified as savings deposits, but that funds in the other accounts in question, since they constitute State funds, cannot properly be so classified.

"The Board of Governors concurs in your Counsel's opinion with respect to the classification of the funds contained in the first mentioned account. It is believed that the question whether the other accounts involved, consisting of funds derived from the proceeds of sales of equipment and from fees and deposits assessed on students, might also be treated as savings deposits is open to considerable doubt; and this question has been the subject of correspondence between your Counsel and members of the Board's staff. However, in view of the uncertainty of the status of these funds under various provisions of State law and in view of our understanding that the member bank, at the suggestion of your examiners, has transferred these funds from savings accounts to checking accounts so that the matter is not now at issue, the Board is not disposed at this time to raise any question with respect to the action which has been taken by your bank in this matter."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"The American National Bank & Trust Company of Mobile, Mobile, Alabama, has applied for permission, under the provisions of Section 13 of the Federal Reserve Act, to accept drafts and bills of exchange to an amount not exceeding

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"at any time in the aggregate 100 per centum of its paid up and unimpaired capital and surplus. The Federal Reserve Bank of Atlanta has recommended that such authorization be granted. Before acting upon the application, however, the Board will appreciate an expression of your views as to whether the condition of the bank and the character of its management are such as to justify the grant of such authorization.

"Enclosed for your information are copies of letters dated February 25, March 6, and March 16, from the president of the national bank to Mr. Clark, Vice President of the Federal Reserve Bank of Atlanta. The letter of March 6 refers to copies of financial statements of certain customers. These are rather voluminous and for that reason have not been enclosed. However, if they are of any interest or would be of any help we would be glad to make them available."

Approved unanimously.

Letter to Mr. Day, Chairman of the Conference of Presidents, Federal Reserve Bank of San Francisco, reading as follows:

"During the joint meeting of the Presidents' Conference with the Board of Governors on Monday, March 2, 1942, you advised the Board that the Conference of Presidents had passed the following resolution:

'That the joint report of the Insurance Plan Committee and Standing Committee on Insurance be accepted, that the Conference of Presidents recommend the plan proposed by the joint committee to the Board of Directors of each Bank, and that the Conference of Presidents arrange a joint discussion with the Board of Governors.'

"The Board of Governors concurs in the action taken by the Presidents' Conference on the joint report of the Insurance Plan Committee and the Standing Committee on Insurance, as set forth above, and it is understood that, in accordance with recommendation No. 5 of the joint report, you will ask those committees to prepare a plan designed to carry out the provisions of paragraph 4 of the joint recommendations.

"It is also assumed that, in accordance with recommendation No. 6 in the joint report, if you have not already

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"done so you will promptly appoint an appropriate committee to be charged with the duty of continuing the study of this problem, with a view to extending the operation of the self-insurance plan as far as practicable from time to time.

"As pointed out in the Board's letter to you of November 3, 1941, the Insurance Plan Committee estimated that there would be a saving of at least \$250,000 a year if the Federal Reserve Banks were to carry their own fidelity and registered mail insurance. In that letter the Board also stated that it seemed to it that such a saving would be sufficient to warrant the System's carrying its own insurance on these types of risks and that the Board agreed in principle with the report of the Committee, although it had not considered any of its details.

"Since that time the Standing Committee on Insurance was able to obtain substantial reductions in rates from the insurance companies, both on the blanket bond and on the registered mail policies. These reductions, while they are important and will result in considerable saving to the System, are not, in the Board's judgment, sufficient to warrant the System's continuing to purchase certain types of insurance. It understands that the insurance companies consider any business showing a loss ratio in excess of 50 per cent of the premium paid as unprofitable and undesirable, and that they cannot be expected to take on a contract which might reasonably be expected to show a loss ratio in excess of 50 per cent of premium paid. It is apparent, therefore, that over a period of years the Federal Reserve Banks, if they insure risks with insurance companies, will have to expect to pay premiums amounting to twice their losses. It is recognized that the services of the insurance companies are worth something to the Federal Reserve Banks, but the Board does not believe they are worth the price that has to be paid for fidelity and particularly for registered mail insurance.

"In the opinion of the Board the resources of the Federal Reserve Banks are sufficient in the light of their loss experience during the twenty-seven years of their existence and the loss experience of the Treasury on registered mail shipments, to justify the System in carrying its own insurance on both fidelity and registered mail risks. It is recognized that the exposure on currency shipments is at times large. It should be pointed out, however, that



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"in the case of shipments of currency from Washington to the Federal Reserve Banks (which aggregated \$3,830,400,000 in 1941, and on which the System paid insurance premiums aggregating \$76,608), there has never been a loss in the history of the System. It is true that these shipments at times run into many millions of dollars and that, while the maximum amount of any one shipment to any one addressee is \$10,000,000, shipments may converge at particular points and thus increase the exposure to somewhat larger amounts. Currency shipped in large volume from Washington, where a record is kept of all serial numbers, is generally referred to as 'hot' money, which criminals prefer to leave alone. On other shipments the exposure at any one time is of necessity much smaller than that on shipments from Washington.

"The Board feels, therefore, that the Committee appointed to continue the study of this problem should give the matter consideration without delay with a view to recommending an extension of the self-insurance principle to all practicable risks at an early date. In this connection, the Board wishes to point out that since war risks are not covered by our present insurance policies, the fact that we are in a war should not in any way mitigate against the adoption of a self-insurance plan. In fact, the necessity for cutting down expenses is now more imperative than ever and every practical means should be adopted to see that the expenses of the Federal Reserve Banks are kept at the lowest possible level consistent with the efficient operation of the System.

"I am sending a copy of this letter to the Chairman of the Board and to the President of each Federal Reserve Bank, and requesting the President to advise the Board of the action taken by his Board of Directors with respect to the recommendations contained in the joint report of the insurance committees."

Approved unanimously, together with  
a letter to the Chairmen and Presidents of  
all Federal Reserve Banks, reading as follows:

"There is enclosed for your information, a copy of a letter to Mr. William A. Day, Chairman of the Conference of Presidents, advising him of the concurrence of the Board of Governors in the action taken by the Conference on the joint report, dated February 20, 1942, of the Insurance



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"Plan Committee and the Standing Committee on Insurance.

"It will be appreciated if you will advise the Board of the action taken by your Directors on the recommendations contained in the joint report of the two insurance committees, which recommendations have been approved by the Conference of Presidents."

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.