

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 9, 1942, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel
Mr. Horbett, Assistant Chief of the Division of Bank Operations

There were presented telegrams to Messrs. Treiber and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard, Stewart, and Woolley, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Kansas City, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal

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Reserve Bank of San Francisco on October 6, by the Federal Reserve Bank of Kansas City on October 7, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, and Dallas on October 8, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Further reference was made to the discussion at the meeting of the Federal Open Market Committee on September 28, 1942, when the Presidents agreed to present to their directors the question of a general reduction in the discount rate or the establishment of a preferential rate on advances secured by short-term Government obligations when informed as to the Board's views on these alternatives. It was agreed that the following discussions and actions taken at this meeting on this subject should be treated as an informal means of reaching the conclusions necessary for the purpose of advising the Presidents as to the Board's views and not as formal actions on the rates under discussion at this time. Mr. Szymczak made the following statement:

As a fundamental element in the policy to be followed in war financing, it has been the position of the Federal Reserve System and the Treasury that as much of the cost of the war as possible should be met by taxation. To this end it would seem that a withholding tax and a refundable tax should be enacted by Congress.

It is recognized, however, that even with an adequate tax program a large part of the cost of the war will have to be met by deficit financing. As a further means of avoiding possible inflationary developments, it is the announced policy of the Federal Reserve System and the

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Treasury to encourage in every way possible the purchase of Government securities by individuals and corporations other than banks. Such purchases serve to absorb purchasing power and, to the extent that they make purchases of Government securities by banks unnecessary, they avoid a further expansion of the deposit structure.

Notwithstanding all of these measures, a very substantial amount of Government securities will have to be purchased by banks and, in this connection, the Federal Reserve System has said that it "is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements".

Member banks outside of central reserve cities at the present time hold approximately \$2,000,000,000 of excess reserves, and the System has been attempting to induce these banks to use these reserves for the purchase of Government obligations and thus relieve the pressure on central reserve city banks where excess reserves have been declining for several months. To meet this loss of reserves, the Board reduced reserve requirements of central reserve city banks by 2 per cent on August 20 and another 2 per cent on September 13.

At the meeting of the Board on October 2, in the light of the discussion at the meeting of the Federal Open Market Committee on September 28, I moved that reserve requirements of central reserve city banks be reduced by an additional 2 per cent, effective October 3. This motion was adopted by the Board and reduced the reserve requirements of central reserve city banks to the level of requirements for banks in reserve cities. It is generally agreed by the members of the Board and the Presidents of the Federal Reserve Banks that, for the reasons that have been discussed on various occasions, there should be no further reduction in reserve requirements until a need therefor is clearly demonstrated, and that such additional reserves as may be needed by the banks should be provided through open market operations including direct purchases from the Treasury.

As a part of this program, the policy should be continued of encouraging reserve city and country banks to make use of their present large excess reserves and steps

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should be taken to facilitate temporary adjustments by individual banks of their reserve positions so that they will be willing to operate with smaller excess reserves.

This can best be done by a reduction in the rate at which they may borrow from Federal Reserve Banks. For this purpose, I favor a reduction in the general discount rate because it would provide an equal opportunity to all banks--not only those holding certain maturities or certain kinds of Government securities--and would encourage banks with excess reserves to use these reserves in the purchase of Government securities, and because this instrument is better adapted to meeting the needs of the individual bank than any other method.

Since the form in which funds are borrowed from a Federal Reserve Bank has no relation to the use to which the funds are put, a reduction in discount rates to encourage borrowing, where necessary and consistent with the policy outlined above, should be in the form of a reduction of the general discount rate rather than the establishment of a preferential rate.

Therefore, I move that the Board's policy be to encourage the Federal Reserve Banks to establish, and to approve whenever submitted by the Federal Reserve Banks, a reduction to $1/2$ of 1 per cent of the rate on loans and advances to member banks under the provisions of sections 13 and 13a of the Federal Reserve Act.

That rate is now 1 per cent and, inasmuch as the rate on section 10(b) loans is required to be not less than $1/2$ per cent higher than the highest discount rate in effect under sections 13 and 13a, a reduction in that rate to $1/2$ per cent would make possible reductions in the rates in effect at the Federal Reserve Banks on section 10(b) advances to 1 per cent, which reduction should also be encouraged.

During the discussion of Mr. Szymczak's motion, reference was made to the following telegram received yesterday from Mr. Peyton, President of the Federal Reserve Bank of Minneapolis:

"Executive committee today voted following changes in discount rates subject to approval of Board of Governors of Federal Reserve System but expressed view that such action on rates at this time should be uniform in all Federal

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"Reserve Districts and indicated its willingness to await your approval until such uniformity has been accomplished: rate of 1/2 per annum on advances to member banks secured by direct obligations of the United States or eligible guaranteed obligations under paragraph 8 and last paragraph of section 13. Rate of 1/2 percent to Federal intermediate credit banks under paragraph 2 of section 13a. Rate of 1/2 percent to nonmember banks under last paragraph of section 13. Rate of 1/2 percent on other advances and rediscounts to member banks under section 13 and 13a. Rate of 1 percent on advances to member banks under section 10(b). Other discount and buying rates to remain unchanged. New rates were voted to remove possible handicaps to uninterrupted financing of war effort."

In connection with the question under discussion, Mr. McKee stated that, in view of the program of the Government for combating inflation, there was some question in his mind whether any action should be taken by the Federal Reserve Banks and the Board of Governors at this time to reduce discount rates. The only reason for such action, he said, would be to make it possible for the banks to buy additional amounts of Government securities. For that purpose, and as long as might be necessary in financing the war, he favored a preferential rate on advances secured by short-term Government obligations. He said that the reason for this position was that he was satisfied that all banks would be in a position to hold a sufficient amount of long-term Governments (when added to loans and investments other than Government securities) to meet their expenses, and that any purchases of Governments beyond that amount should be in the form of short-term securities. As a means of encouraging such purchases, he favored giving

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short-term securities preferred treatment so far as the discount rate was concerned, such a preferential rate to apply only to advances to member banks.

In a further discussion, a majority of the members of the Board indicated agreement that action in some form to provide a lower discount rate at the Federal Reserve Banks should be taken, but it appeared that the members were equally divided in their preferences for a reduction in the general discount rate or the establishment of a preferential rate, Messrs. Ransom, Szymczak, and Draper favoring the former and Messrs. Eccles, McKee, and Evans favoring the latter. However, Mr. Ransom stated that, while he would prefer action in the form of a reduction in the general discount rate and felt that a preferential rate was wrong in principle for the reason, long-established, that the form in which funds were borrowed from a Federal Reserve Bank had no relation to the use to which the proceeds of the loan might be put, he would prefer the adoption of a preferential rate to no action at all since it would at least be a substantial step toward lower discount rates which he desired.

Mr. Draper stated that he opposed the adoption of a preferential discount rate. In explaining his position, he enumerated again some of the arguments in favor of a general discount rate and asked permission (which was granted) to include a statement on the same general subject made in 1923 by Governor Strong of the Federal Reserve Bank of New York.

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(See pages 148-149 of the proceedings of the Conference with the Federal Reserve Board of Governors and Chairmen and Federal Reserve Agents of the Federal Reserve Banks on November 12-15, 1923.) Governor Strong stated:

"In all consideration of special discount rates under section 13 for special collateral, like Treasury certificates and bills, it must always be borne in mind that such a rate simply induces our members to use the kind of paper for which the lowest rate is charged. Line-of-credit paper would disappear from our portfolios in favor of Treasury obligations if the rate were dearer. Nothing whatever beyond that would be accomplished, except possibly to put some small premium in value upon the paper to which we extended the preferential rate. Our effective rate, that is, the one which the members would use, would always be the lowest one. During the war or later, at one time over 80 per cent of our earning assets was war paper, solely because of the rate preference. When that preference was ended, the other kinds of paper reached us, because of the convenience and smaller risk and expense of handling by mail, etc. . . . There is something sacred in a uniform rate, however, because it places our resources at the command of all of our members, at the same rate to each, whether the member offers a Treasury obligation, or a banker's bill, or a merchant's note. That is as it should be under section 13, where we lend to a member on the member's obligation and credit."

(See page 152 of the Conference proceedings.)

"It boils down to a suggestion to advance discount rates only on business paper, and let present, or lower, rates apply to Treasury certificates and bills. We should not consider such a course for one moment. Whatever the argument may now be, the result is the same, 1919 all over again, the Reserve Banks carrying all the Treasury certificates at profitable rates for member banks. We had our lesson once and I am amazed that the proposal should be seriously advanced again. . . . We know from past experience that once these preferential rates are established, the large city (especially New York City) banks, are the only ones which can promptly and fully avail themselves of them. The country bank is neither a holder nor dealer in those luxuries that pay only (Sic!) 4 per cent, or even less. . . . Our safe course will be to observe the real intent and spirit of the act, and furnish credit to all our members at the same rate in our respective districts, no matter what the collateral, not the size, strength, or location of the bank, so long as the member simply borrows for a fixed term under section 13."

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The members of the Board who favored a preferential rate felt that it would be a definite encouragement to member banks to invest their excess reserves in short-term Government securities, that such a rate would be easier to explain as a part of an anti-inflationary program, and that it would be easier to eliminate the preferential rate when the need had passed than it would be to increase the general discount rate.

After a discussion of the question whether a preferential rate would be a discrimination against smaller member banks which might not hold Treasury bills or notes, and of the question whether the preferential rate or a lower general discount rate would be more in harmony with the anti-inflationary program, Mr. McKee moved that Mr. Szymczak's motion be amended to provide that the Federal Reserve Banks be advised informally that, if established by the respective boards of directors, the Board of Governors would approve for the Federal Reserve Banks a preferential rate of 1/2 per cent on advances to member banks under section 13 of the Federal Reserve Act, secured by direct or guaranteed obligations which had one year or less to run to call date or to maturity if no call date.

Mr. McKee's motion to amend Mr. Szymczak's motion was put by the chair and carried, Messrs. Eccles, Ransom, McKee, and Evans voting "aye" and Messrs. Szymczak and Draper voting "no".

The amended motion was then put by the chair and carried unanimously.

This action was taken (1) with the hope that the preferential rate of 1/2 per cent would be established by all the Federal Reserve Banks and (2) with the understanding that action on the rates submitted by the Federal Reserve Bank of Minneapolis would be deferred.

The suggestion was offered that the Federal Reserve Banks

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should also be advised of the attitude of the Board with respect to the rates in effect at the Federal Reserve Banks on advances under section 10(b) of the Federal Reserve Act.

Mr. Szymczak moved that the Board take the position that the differential between the rate in effect at a Reserve Bank on advances to member banks under section 10(b) of the Federal Reserve Act and the highest rate in effect on loans and advances under sections 13 and 13a of the Federal Reserve Act should not be greater than the minimum required by law, and that, therefore, the Federal Reserve Banks should be advised informally that, if established by the boards of directors, the Board would approve a reduction to 1-1/2 per cent in the rate on section 10(b) advances for any Federal Reserve Bank that had a higher rate in effect at the present time.

Mr. Szymczak's motion was put by the chair and carried unanimously.

Attention was directed to the fact that the rates at the Federal Reserve Banks on advances to individuals, partnerships, and corporations (other than banks) secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act ranged from 2-1/2 to 4 per cent. Mr. Goldenweiser said that no advances were being made by the Reserve Banks under this authority at the present time and that he would like to have the privilege of eliminating the schedule from the Federal Reserve Bulletin.

In the discussion of this suggestion, it was stated that possibly the principal reason for the existing rates was that the Federal Reserve Banks did not want to establish rates which would compete with those for

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loans of the same kind by member banks. There was agreement, however, that in the present circumstances, particularly when the System had strongly advocated a policy as far as practicable of placing Government obligations outside the banking system, it would be more consistent if Federal Reserve Bank rates on loans to individuals, partnerships, and corporations (other than banks) on the security of Government obligations were not established in excess of 2 per cent.

Thereupon, Mr. Ransom moved that the Federal Reserve Banks be advised informally that, if established by the respective boards of directors, the Board of Governors would approve for each Bank a rate of 2 per cent on advances to individuals, partnerships, or corporations (other than banks) secured by direct obligations of the United States.

This motion was put by the chair and carried unanimously, with the understanding that, if a Federal Reserve Bank did not see fit to adopt the suggested rate of 2 per cent, action on other rates fixed by the Bank in accordance with the other motions adopted by the Board at this meeting would not be deferred pending a decision on the rate proposed by the Bank on advances to individuals, partnerships, or corporations (other than banks).

It was also understood that the changes in rates suggested by the Board's actions at this meeting were not intended to affect other rates of the Federal Reserve Banks on loans and advances under sections 13 and 13a and that Mr. Morrill should call the Presidents of the Reserve Banks on the telephone and inform them of the Board's conclusions.

Before this meeting the members of the Board had seen a memorandum dated October 1, 1942, prepared by Mr. Dreibelbis in accordance

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with the action taken at the meeting of the Board on September 15, 1942, when the Legal Division was requested to prepare a memorandum setting forth the steps which it would recommend for consideration by the Board to meet the problem of the absorption by member banks of exchange and collection charges. The memorandum submitted a recommendation which was predicated upon the Board electing now to follow the matter through to a conclusion which might result in the use of extraordinary powers by the Board or a full report to the Congress, or both. The steps provided in the recommended procedure were:

1. Approval of a reply, to be addressed to the Comptroller of the Currency in the form attached to the memorandum, to the letter received from Deputy Comptroller of the Currency Upham under date of July 31, 1942.

2. If the suggestion contained in the draft of letter were accepted that representatives of the Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency explore the entire question in the light of reports furnished the Board by the office of the Comptroller and any supplemental information which future developments might indicate to be desirable, a determined effort should be made to bring the three supervisory agencies into agreement as to the action to be taken.

3. If the effort to obtain a general agreement should fail, it would become necessary to review the situation and perhaps revise the procedure, the decision with respect to the course to be pursued to be made in the light of the situation existing at that time.

Mr. Ransom moved that the letter submitted with Mr. Dreibelbis' memorandum be approved. This motion was put by the chair and carried unanimously, with the understanding that such editorial changes would be made in the letter as were approved by Mr. Ransom, after which it would

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be sent, and that a copy would also be sent to Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, with a letter of transmittal reading as follows:

"I enclose copies of correspondence between the office of the Comptroller of the Currency and the Board, the contents of which are self-explanatory.

"It has been several years since the subject of this correspondence has been jointly reviewed. Recent developments increase the Board's concern with respect to the practice of certain banks and changing conditions may, in the Board's opinion, give impetus to the adoption of the practice by still more. The Board believes that the success or failure of any action to control the situation will depend, to a large extent, on the uniformity of support any such action receives from all agencies involved. In these circumstances, the Board would like to suggest the advisability of joint review of the matter by the three agencies at this time. If the Corporation agrees and will so advise the Board, it will be glad to initiate a discussion between such members of the respective staffs as may be selected for as early a date as can be conveniently arranged."

Secretary's Note: The letter as approved by Mr. Ransom and sent to the Comptroller of the Currency under date of October 14, 1942, with a copy to Mr. Crowley, was in the following form:

"This is in response to Mr. Upham's letter of July 31, 1942. The Board has now reviewed the entire matter of absorption of exchange charges in its relations to the Board's Regulation Q in the light of all of the correspondence to which the letter refers as well as the fundamental issues which appear to the Board also to be a part of this problem.

"The Board does not believe that the problem of exchange absorption can be considered alone. It is only a part of the whole question of par clearance with its many involved and related questions. It raises serious problems for the System with respect to membership and these are accentuated to the extent that different classes of banks are subject to different Federal supervisory rules and policies. Responsible

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"authorities question the merits of prohibiting the payment of 'interest' on demand deposits in the first instance, and this question has always arisen in past discussions. In these circumstances, the Board is convinced that any solution of the problem must take all of these factors into account and it is persuaded by its experience that any administrative solution under existing legislation, unless uniformly supported and administered by the responsible Federal supervisory agencies, is doomed to failure.

"The complexity of the problem was recognized by the Board when, on December 28, 1935, and from time to time thereafter, it deferred the effective date of the definition of 'interest' in its Regulation. This definition specifically included the absorption of exchange. It was recognized by Chairman Steagall of the House Banking and Currency Committee and Chairman Wagner of the Senate Banking and Currency Committee when, on January 30, 1937, they jointly requested the Board of Governors to postpone again the effective date of the definition. This was done. It was recognized in the joint statement of the Federal Deposit Insurance Corporation and the Board of February 12, 1937, announcing the bringing of their respective Regulations into uniformity.

"At that time there were differences of opinion between the Federal Deposit Insurance Corporation and the Board arising out of differences in the respective legislation under which each was acting and also out of differences concerning the application of principles of general law to given facts. The law under which the Board acts provides that: 'No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand ***', and further that the Board is authorized 'to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof'. The law under which the Federal Deposit Insurance Corporation acts provides: 'The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term "demand deposits" * * *'. The Federal Deposit Insurance Corporation pointed out that its powers did not include the power which the Board had 'to determine what shall be deemed to be a payment of interest', and it questioned whether the practices prohibited in the Board's

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"proposed definition of 'interest' constituted 'interest' as a matter of general law.

"The differences in the wording of the two Regulations were resolved by eliminating the definition of 'interest' from both Regulations and by inserting in each Regulation the following:

'Within this regulation, 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 announced at the time, the effect of these amendments was merely to restate general principles of law long announced in the decided cases. The question of the application of such general principles to given cases was left open.

"It is a fact, of course, that the answer to whether certain given facts would constitute the payment of 'interest' under general principles of law is one which could be given finally only by the court of last resort which had the matter before it. Furthermore, as long as the definition of 'interest' had not been expanded or limited by regulation and the answer continued to be governed by the general law, obviously the answer would not differ as between national, state member and nonmember insured banks, and the court, while it might be persuaded, would not be bound by administrative interpretations of the general law. In these circumstances, the Board has doubted if the public interest would be served by dogmatic interpretations applying principles of general law to given facts so long as differences of opinion continued to exist between the agencies as to the application of such principles to such facts.

"So far as is known to the Board, no one was satisfied with the joint action and statement of February 1937 as representing a final disposition of the problem. This was made known by the Board in its Annual Report to the Congress for the year 1938. Later, the problems figured prominently in the questions propounded in the Wagner Questionnaire issued under the authority of Senate Resolution 125. With action under this resolution impending, the Board, until the advent of the present emergency, looked forward to an early consideration of all of these problems by the Congress. Since its advent these particular problems have become insignificant in comparison to the ones with which the country now must deal.

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"Nevertheless, the Board recognizes that recent developments make the situation increasingly unsatisfactory. Moreover, it may be that the reports of your examiners in the cases to which the correspondence refers afford an opportunity for the supervisory agencies to review the problem in the light of a given case. Your office is interested, not only generally, but directly, because of the questions which may arise as to choice of remedies to be invoked in a case in which a national bank may appear to have violated the Regulation. Accordingly, the Board suggests that representatives of your office, of the Federal Deposit Insurance Corporation, and of the Board explore the entire question in the light of the reports which have been furnished the Board and any supplemental information which future developments may indicate to be desirable. The Board would hope that out of such study would come mutual agreement with respect to the future course of action of the respective agencies.

"The Board is making the same suggestion to the Federal Deposit Insurance Corporation. A copy of its letter to Chairman Crowley is enclosed and copies of your letter of July 31, 1942, and of this letter have been furnished him."

Mr. McKee stated that he had been advised informally that, without consultation with the Board or the Federal Deposit Insurance Corporation, the office of the Comptroller of the Currency had abandoned the provision in the bank examination procedure agreed upon in 1938 which provided, among other things, that Group 2 securities held by a member or insured bank would be valued at the time of examination at the average market price for 18 months preceding the examination and that 50 per cent of the net depreciation would be deducted in computing net sound capital.

After a brief discussion, it was understood that Mr. McKee would have prepared and submitted to the Board for

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consideration a draft of letter or letters setting forth the position that the Board might take in the matter.

At this point, Messrs. Carpenter, Thurston, Goldenweiser, Smead, Dreibelbis, Leonard, Vest, Wyatt, and Horbett withdrew from the meeting.

Upon recommendation of the Personnel Committee, the following actions were taken:

1. Simeon E. Leland, a Class C director of the Federal Reserve Bank of Chicago, was designated Chairman and Federal Reserve Agent at the Chicago Bank for the remainder of the year 1942, and his compensation as Chairman and Federal Reserve Agent fixed on the uniform basis fixed for the same position at all Federal Reserve Banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors.
2. W. W. Waymack, a Class C director of the Federal Reserve Bank of Chicago, was appointed Deputy Chairman of the Bank for the remainder of the current year to succeed Mr. Leland.
3. The Personnel Committee was authorized to continue its investigation of the following individuals and, if satisfactory results were obtained, to tender to them through the Chairmen of the respective Federal Reserve Banks appointments to the positions shown, each for the unexpired portion of the term ending December 31, 1942:

<u>Name</u>	<u>Position</u>
James J. Love Livestock and tobacco raiser, Quincy, Florida	Director, Jacksonville Branch of the Federal Reserve Bank of Atlanta

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<u>Name (Continued)</u>	<u>Position</u>
R. B. Richardson President, Western Life Insurance Company, Helena, Montana	Director, Helena Branch of the Federal Reserve Bank of Minneapolis
Harry R. Wellman Director, Giannini Foun- dation of Agricultural Economics, University of California	Class C director of the Federal Reserve Bank of San Francisco
William H. Steen Milton, Oregon	Director, Portland Branch of the Federal Reserve Bank of San Francisco

The action stated with respect to each of the matters herein-
after 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 8, 1942, were approved unani-
mously.

Memorandum dated October 6, 1942, from Mr. Draper, recommend-
ing, with the concurrence of Mr. Morrill, that Miss Betty Bartelt be
transferred from the Secretary's Office to his office as a stenographer
and that her salary be increased from \$1,440 to \$1,620 per annum, effec-
tive as of October 16, 1942.

Approved unanimously.

Memorandum dated October 5, 1942, from Mrs. Margery Maize, a
file clerk in the Secretary's Office, submitted to the Board with Mr.
Morrill's recommendation for approval, requesting that she be granted,

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in addition to her accumulated and accrued annual leave, leave of absence without pay from 11:45 a.m. on November 2 through the close of business December 31, 1942, to enable her to be with her husband, who is in the Army Air Corps, while he is still stationed in South Carolina. The memorandum stated that Mrs. Maize will continue her contributions to the retirement system if the Board approves continuing its contributions during the period of her leave.

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of October 1, 1942, the Board approves the appointment, effective November 1, 1942, of W. A. Dance as an examiner for the Federal Reserve Bank of Atlanta.

"It is noted that the proposed appointee owes \$1,500 to the State nonmember bank of which he is now cashier and \$800 to a national bank. It is also noted that he owes approximately \$4,000 on his home under an F.H.A. loan, but information was not furnished as to whom the indebtedness is due. It is assumed that this indebtedness is not due to a member bank, but it will be appreciated if you will advise us in this regard. It is understood that Mr. Dance will offer his home for sale if appointed to your examining staff and that the proceeds of any such sale will be used to satisfy his indebtedness."

Approved unanimously.

Letter to the board of directors of "The Ladoga State Bank", Ladoga, Indiana, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board

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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.

Letter to the board of directors of the "Farmers State Bank of Buffalo", Buffalo, Illinois, 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, together with a letter to Mr. Young, 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 'Farmers State Bank of Buffalo', Buffalo, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"The application was accompanied by a certified copy of the certificate of proceedings in connection with the consolidation which took place in 1923. However, the application was not accompanied by a copy of the certificate issued by the State authorities authorizing the consolidated bank to begin business and it will be appreciated if you will forward a copy of this certificate in order to complete the Board's records."

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Letter to Mr. West, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers further to your letter of August 20, 1942, acknowledged by our letter of September 10, 1942, relating to request of Mr. Benjamin N. Phillips, Vice President, Union Bond & Mortgage Company, Port Angeles, Washington, that the Board determine that his company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of Section 2(c) of the Banking Act of 1933.

"While in Washington a few days ago, Mr. Phillips discussed this matter with Governor McKee and members of the Board's staff, advancing the argument that the determination should be made on the grounds that his company controls only one bank. Upon inquiry as to whether he wished to submit any further information before the matter was acted upon, he stated that he desired that the Board proceed on the basis of the information now before it.

"In its application for a voting permit, filed in 1933, Union Bond & Mortgage Company stated that 'the principal business of the applicant is that of a holding company of bank stock'. Since then there has been no change in the facts which would indicate that the holding of bank stocks is not still a major business of the company. In fact, it has increased its holdings of stock of one of the two banks in which it was then interested and has participated in the organization of a new bank, acquiring part of its stock. The Board's information is that the company now owns 60.9% of the stock of First National Bank in Port Angeles, Port Angeles, Washington, 31.8% of the stock of The First American National Bank of Port Townsend, Port Townsend, Washington, and 25% of the stock of Bank of Sequim, Sequim, Washington. These bank stocks constitute over 70% of the company's assets on the basis of carrying values on the company's books and, while the company has other investments and conducts an insurance agency business, the bank stocks are the largest one source of income, accounting for over 40% of the company's income for 1940 and 1941.

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"A considerable portion of the company's capital is represented by preferred stock sold to the public but exclusive voting rights (except in the event of default in payment of dividends on the preferred stock) are vested in the holders of the common stock of which 82.3% is owned by Benjamin W. Phillips and the balance is owned by 7 other shareholders. Mr. Phillips and others of this 'management group' have significant holdings of stock of the banks in which the company is interested and serve as officers and directors thereof, as shown below:

Shareholders	Union Bond & Mortgage Company (Common Stock) (5 Directors)	First National Bank in Port Angeles (9 Directors)	The First American National Bank of Port Townsend (5 Directors)	Bank of Sequim (5 Directors)
Benjamin N. Phillips	V.P. & D. : 10	Pres. & D. : 80	V.P. & D. : 324	V.P. & D. :
James E. Phillips	A. Sec. & D. : 10	A.C. & D. :	: 1	: :
R. S. Jenson	D. : 14	V.P. & D. :	: 29	D. :
Wessie B. Fisher	: 14	: :	: :	: :
H. E. McGillivray	: 17	(D) :	: 26	: :
H. A. Dahlberg	Pres. & D. :	: :	: :	: :
Madeline Lee Sherwin	: :	: :	: :	: :
P. O. Fountain	Sec.-Tr. & D. : 10	V.P. & D. : 10	D. : 10	D. : 10
Sub-total	: 6093 181/300	: 75	: 90	: 403
Union Bond & Mortgage Company	: 609	: 159	: 250	: :
Sub-total	: 6093 181/300	: 684	: 249	: 653
Others	: 316	: 251	: 347	: :
Total Shares	: 6093 181/300	: 1000	: 500	: 1000

"Thus, while Union Bond & Mortgage Company owns a majority of the stock of only one bank, it is apparent that the company is used to centralize control of the three banks in which it owns stock and, in this connection, it is noteworthy that, except for a small bank in Port Angeles organized in 1941, these banks have had a monopoly of local

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"banking facilities in Jefferson and Clallum Counties (an area of 3473 square miles) since 1933.

"In view of the foregoing, the Board is of the opinion that the determination requested by Mr. Phillips is not warranted. A new request for such a determination, of course, may be submitted whenever there has been a material change in the facts. Please advise Mr. Phillips in accordance with this letter."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"In order to comply with a request from Mr. W. B. Griffith, Assistant to Director of Finance, United States Maritime Commission, it will be appreciated if hereafter your Bank will use Form No. 1 (Treasury Department form for deposits not subject to check) in depositing guarantee fees due the Maritime Commission from Regulation V loans, instead of Form CD 6599 as requested in our wire of July 20, 1942."

Approved unanimously.

Letter to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Thank you for your letter of September 29, 1942 with reference to the Defense Housing exemption under section 8(e) of Regulation W.

"We agree that the situation as it now exists is unsatisfactory in that it is difficult to determine in some cases whether or not Administrator's Order No. 8 of the National Housing Administration has been properly interpreted.

"The National Housing Administration has been endeavoring for some time to find a way in which greater precision can be introduced in this procedure and has reported that within a few days it will have a proposal to submit to us. We recognize that the problem is a difficult one because the question of whether or not the given repair is

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"really needed is a matter of judgment on which several persons, even if reasonably qualified, might have differing opinions."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. F. J. Bailey, Assistant Director of Legislative Reference, Bureau of the Budget, reading as follows:

"Receipt is acknowledged of your letter of October 7, 1942, requesting comments on the enrolled enactment, H.R. 7121 - To amend an Act entitled 'An Act to establish a uniform system of bankruptcy throughout the United States', approved July 1, 1898, and Acts amendatory thereof and supplementary thereto.

"It would appear that there is nothing in this bill which is of especial interest to, or which affects, the Federal Reserve System.

"I regret that I am not in a position to make any estimate as to the probable cost of the enactment of this bill. I do not know of any objection to its approval by the President."

Approved unanimously.

Memorandum dated October 6, 1942, from Mr. Cravens, Administrator for the War Loans Committee, recommending, for the reasons stated in the memorandum, that \$500 be added to the item of telephone and telegraph and \$45 to the item of stationery and supplies in the 1942 non-personal budget of the office of the Administrator for the War Loans Committee.

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.