

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 17, 1943, at 2:30 p.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Paulger, Chief of the Division of
Examinations
Mr. Dreibelbis, General Attorney
Mr. Wingfield, Assistant General Attorney
Mr. Pollard, Assistant Chief of the Division
of Examinations
Mr. Wyatt, General Counsel
Mr. Kennedy, Assistant Chief, Government
Securities Section of the Division of
Research and Statistics

Mr. Ransom referred to the memorandum prepared by Mr. Wingfield under date of March 6, 1943, in connection with the request of the Department of Justice that the Board (1) permit representatives of the Department to examine all registration statements under Regulation W at the Federal Reserve Banks and to take from these statements such information as they deemed desirable regarding small loan registrants, (2) permit in special cases, to be determined by representatives of the Department of Justice, the making of photostat copies of registration statements, and (3) permit in some instances, to be determined by Department of Justice representatives, follow-up investigations by Federal Reserve Bank investigators for the purpose of developing further information for the Department. The memorandum had been circulated among the members of the

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Board for consideration at a meeting, and at Mr. Ransom's request Mr. Wingfield had prepared a draft of letter to the Attorney General which stated that the Board would be willing to permit the examination of registration statements but felt that copies thereof and follow-up investigations by Federal Reserve Bank investigators should not be made.

The draft of letter was read by Mr. Wingfield, and in the ensuing discussion the question was raised by Mr. Szymczak whether the examination of registration statements might result in increased difficulty in the enforcement of Regulation W. Messrs. Ransom, Dreibelbis, and Wingfield all stated that that had been their concern ever since the receipt of the request from the Department of Justice, and Mr. Dreibelbis stated that, having that in mind, it was his recommendation that the position taken by the Board be along the lines suggested in the letter as the least that could be done in the circumstances.

Mr. Ransom stated that he had given careful consideration to the matter and, if agreeable to the other members of the Board, would approve the proposed letter, particularly in view of the fact that the Board would need the active cooperation and support of the Department of Justice in connection with any legal actions that might be brought against registrants for violations of Regulation W. He also said that he realized the danger inherent in information being made available to the Department of Justice from registration statements because of the possible reluctance of registrants to submit the information and to cooperate in the enforcement of the regulation if it were known that information submitted by

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them was being made available to the Antitrust Division of the Department of Justice, and that if the Board desired to defer action on the matter and have him discuss it again with the Attorney General he would do so, but that if the Department insisted he had no other recommendation to make than the approval of the draft of letter which had been read.

At the conclusion of the discussion, it was agreed that in view of all the circumstances Mr. Ransom should discuss the matter again with the Attorney General.

Mr. McKee referred to the discussion at the meeting of the Board on January 19, 1943, with respect to the request received from the Peoples Bank of Lakewood Village, California, a member bank, for permission to purchase the assets and assume the liabilities of The First National Bank of Bellflower, Bellflower, California, and The First National Bank of Garden Grove, Garden Grove, California, to move the headquarters of the Peoples Bank to Bellflower, and to operate branches in Lakewood Village and Garden Grove. He said that in accordance with the decision reached at that time the bank's request had been forwarded to the Board without recommendation of the executive committee or board of directors of the Federal Reserve Bank of San Francisco, that the matter had been discussed with Mr. Clerk, First Vice President of the Reserve Bank when he was in Washington recently, and that there was in the files a memorandum prepared in the Board's Division of Examinations under date of February 27, 1943, setting forth the pertinent facts with respect to ownership, management, etc., of the proposed consolidated institution. The statement was also made that a letter had been received under date of March 15, 1943, from the law firm of Bodkin, Breslin & Luddy, attorneys for the

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Peoples Bank, inquiring whether there was anything which they might do to accelerate action on the bank's request.

Mr. McKee pointed out that when the bank was admitted to membership in 1942 all the directors and stockholders stated that they had no plans, commitments, or undertakings looking toward a change in the status of the bank as a local independent institution, and that one of the conditions of membership provided that, if without prior written approval of the Board of Governors Transamerica Corporation or any unit of the Transamerica group acquired directly or indirectly any interest in such bank other than such as might arise out of usual correspondent bank relations, such bank within 60 days after written notice from the Board would withdraw from membership in the Federal Reserve System. He went on to say that, while it was not evident from the available facts, there were indications that the consolidated institution might be in fact under the domination or control of the Transamerica group, and that in any event he would hesitate to approve the application because of the qualifications of the management and its lack of experience in operating a bank with branches.

Mr. McKee made the further statement that he had discussed the matter with Comptroller of the Currency and the Federal Deposit Insurance Corporation, and that their opinion was that the Board should decline the request.

At the conclusion of a discussion, upon motion by Mr. McKee, it was agreed unanimously that in all the circumstances the application of the Lakewood Village bank should be declined.

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Mr. McKee presented the following draft of letter to the Presidents of all the Federal Reserve Banks:

"As you know, a Standing Committee was appointed at the Examiners' Conference last September to continue the study of the scope, procedure, and frequency of examinations and possible changes in the form and extent of information required by the report of examination. The Committee was also asked to give consideration to the development of a uniform system for rating banks. The Committee recently met in Philadelphia and enclosed are copies of the recommendations submitted on the two subjects, together with a copy of the letter of transmittal, dated February 27, from Mr. Hill, Chairman of the Committee.

"Scope, Procedure, and Frequency of Examinations and Information Required by Report of Examination"

"On the question of the frequency of examinations, the Board wishes to emphasize the first recommendation of the Committee, namely:

'That the Federal Reserve Banks continue to make examinations on the present basis as long as it is found possible to do so and that aggressive efforts be made immediately to augment staffs with acceptable men.'

It is assumed, of course, that each Federal Reserve Bank is doing its utmost to maintain an examining staff adequate to continue making examinations on the present basis, undertaking aggressively to augment the staff if it is numerically inadequate, and taking appropriate measures otherwise to prevent, if possible, any reduction in the frequency of examinations, at least in so far as foreseeable contingencies are concerned. It is hoped such efforts will be successful and the Committee has offered some suggestions designed to reduce the time and effort required for the preparation of reports. However, if it should be found impossible to maintain an adequate staff at any Reserve Bank, or if for any other reason it should be found impracticable to continue the policy of examining each State member bank at least once a year, it will be expected, and this is obviously in keeping with the Committee's recommendation, that examinations will be deferred as suggested only in those cases where the banks are in good condition and under capable management. It is requested that the Board's Division of Examinations be informed promptly of any material changes made in your existing policies in this connection.

"With respect to possible changes in the form and extent of information required by the report of examination to reduce the work of the examiner in preparing the report, it is understood that the Committee studied the report, page by

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"page, and gave careful consideration to the suggestions submitted to the Committee by the Reserve Banks. When the new report form was prepared in 1938 a sincere effort was made to reduce to essentials the information required by the report, and most of the Reserve Banks, as well as the Standing Committee, seemed to feel that changes which might appropriately be made in the report were few.

"The Board concurs in the suggestions made by the Committee and it is believed that the suggestions will prove helpful in reducing the work of the examiners in preparing their reports. It should be pointed out that the suggestion as to the period to be covered in the schedule on page 4 of the report form is applicable to the Reserve Banks which prefer to continue at this time to have the schedule prepared on a four and a half or five-year basis, and that there is no conflict with the suggestion contained in the last paragraph of Mr. Paulger's letter of February 25 relative to the revision of page 4. The suggested change in the instructions at the bottom of page 4 was incorporated in the recent revision of that page.

"Uniform System for Rating Banks

"The adoption of a system for rating member banks will not be an innovation for the Federal Reserve Banks, but the systems now used are varied. The use by a Reserve Bank of its own rating system is, of course, valuable to the Reserve Bank in keeping informed as to the general condition of the member banks in the district, in following trends in the banks, both individually and collectively, and in appraising the effectiveness of its supervisory efforts. The suggested uniform system is designed primarily for the purposes of the Board and its staff and will be of real value in following those factors on a nationwide basis. It should also promote uniformity in the appraisal of the condition of banks and in the application of supervisory measures. It is felt that the Committee attained its stated objective in devising a simple and practical system.

"It is requested, therefore, that the Federal Reserve Banks rate each member bank, both State and national, in their respective districts under the system recommended by the Committee, submitting information to the Board's Division of Examinations in accordance with the following plan:

"1. State Member Banks. - Submit a list of the banks as of March 15, 1943, showing, with respect to each bank, the current rating based upon the latest report of examination made by the Reserve Bank, the date of examination, and total assets as of the date of examination. In the case of each bank rated C or D, indicate the major causes for the classification in brief descriptive terms, such as 'Asset condition', 'Management', 'Capital', etc. Following the listing, show a recapitulation by full ratings without (+) or (-) variations.

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"The list should be arranged in alphabetical order by locations of the banks, grouped by States, and the information should be submitted on regular lettersize paper and in a form substantially in accordance with the enclosed illustration. (However, the previous ratings will not be included in the 1943 list but will be included in lists for 1944 and subsequent years.)

"Subsequent lists should be submitted annually as of March 15 and as soon after that date as possible. Hereafter, the rating of each State member should be noted on the face of Form F.R. 212 to the right immediately above the statement of condition.

"2. National Banks. - Follow the procedure described above except that it will not be necessary to submit a list as of March 15, 1943. It is realized that the preparation of such a report might be unduly burdensome, although it is understood that a number of the Reserve Banks now rate national banks for their own purposes. It is requested, therefore, that the ratings for national banks be based upon examinations in the first half of the year 1943 as the reports are received and that the first complete list be submitted as soon after August 1, 1943, as practicable. In 1944 and in subsequent years, the lists are to be submitted as of March 15 and the 'previous rating' for each bank will be that shown in the previous annual list of ratings.

"After some operating experience with the uniform rating system, it may be desirable to modify it somewhat in the light of the experience gained and any suggestions you may care to offer from time to time will be appreciated and should be submitted to the Division of Examinations."

Approved unanimously.

At this point, Messrs. Paulger, Wingfield, and Pollard withdrew from the meeting.

Mr. McKee stated that yesterday he and Mr. Smead, Chief of the Division of Bank Operations, and Mr. Vest, Assistant General Attorney, met with a subcommittee of the Senate Committee on Small Business, of which Senator Murray is Chairman, and that a memorandum of the discussion at the meeting was being prepared and would be circulated among the members of the Board. He requested that the memorandum be brought

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to Mr. Draper's attention as soon as he returned to the office at the end of this week.

At this point, Messrs. Wyatt and Kennedy left the meeting.

Reference was made by Mr. Szymczak to the annual report of the Committee of Employees of the Board of Governors of the Federal Reserve System for the year ending March 31, 1943, and Mr. Ransom suggested that the report should be considered by the Board's Personnel Committee. Mr. Morrill stated that Mr. Leonard, Director of the Division of Personnel Administration, had discussed the report with Mr. Brown, Chairman of the Committee of Employees, and that it was understood that the Committee was preparing a letter or memorandum which would explain what was meant by certain statements contained in the report.

Mr. Szymczak stated that with his leaving tonight for Dallas there would be no member of the Personnel Committee in Washington, but that as soon as Messrs. Eccles and Draper returned the report should be brought to their attention so that if prompt action on the report should be required they could make a recommendation to the Board.

At this point, Messrs. Thurston and Dreibelbis withdrew from 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 March 16, 1943, were approved unanimously.

Letter to "The First National Bank of Dewey", Dewey, Oklahoma, reading as follows:

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"This refers to the resolution adopted on August 25, 1942, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act, except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"Recently officials of the War Department discussed with members of the Board certain questions relating to the requests of the Federal Reserve Banks for reimbursement of expenses incurred in handling loans under Executive Order 9112 and the Board's Regulation V. The officials of the War Department stated that owing to the wide variance in the expense vouchers of the Federal Reserve Banks, based on the volume of business handled, they have been reluctant to certify some of the vouchers for payment. These vouchers are, of course, subsequently sent to the General Accounting Office.

"Following these discussions, the Board had the attached War Department tables, marked #1 and #2, prepared from its records, and one of the officials of the War Department had statement #3 prepared from the reimbursable expense vouchers submitted by the Federal Reserve Banks.

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"Figures shown in statement #1 were taken from the functional expense reports submitted by the Federal Reserve Banks and totals for some Banks are slightly different from the totals shown in table #3. Subsequently, one of the officials of the Navy Department stated that the requests for reimbursement of Regulation V expenses submitted by some of the Reserve Banks appeared to be out of line. Accordingly, we have prepared tables similar to the above for the Navy Department and also for the Maritime Commission. These tables are also attached.

"There is not sufficient information in the Board's files to enable it to give the War and Navy Departments an adequate explanation of the variance in relative operating costs at the different Federal Reserve Banks. Such information as the Board has available, however, indicates that the differences in costs may be due principally to the causes noted below.

"The first and most important one relates to the policy adopted by the Federal Reserve Bank in handling loan applications. It appears that some Reserve Banks send out field representatives to investigate all, or nearly all, of the applications; that some Banks send investigators out occasionally; and that others do not use field investigators at all or only on rare occasions. These varying procedures necessarily substantially affect operating costs, particularly for salaries and traveling expenses. It is also understood that some Reserve Banks have their counsel carefully review all applications from a legal standpoint and prepare most of the credit agreements used in connection with guaranteed loans, while others rely upon the financing institutions to prepare the credit agreements and to do practically all legal work in connection with the loan applications.

"The other possible cause for differences in relative costs may be a failure on the part of some of the Banks to follow strictly the Manual of Instructions Governing the Preparation of Functional Expense Reports in the determination of their costs.

"It is also recognized that differences in average salaries of employees engaged on Regulation V work has an important bearing on costs. An analysis of the figures taken from Form E indicates that the average annual salary of such employees at the Federal Reserve Banks ranges from \$1,930 to \$2,803 in the case of the War Department and from \$1,814 to \$3,033 in the case of the Navy Department.

"The Board will appreciate it if you will (a) have the accounting procedure followed in determining costs of work performed in handling loan applications under Regulation V carefully checked to see that the charges are determined in

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"strict accordance with the Manual of Instructions Governing the Preparation of Functional Expense Reports, and (b) have the policy of your Bank with respect to the handling of Regulation V loans carefully reviewed in the light of the above comments. It will also be appreciated if you will write the Board fully regarding this matter and, if the expenses for your Bank appear to be relatively high, furnish the Board with a statement setting forth what, in your opinion, is the cause therefor, and indicate whether it would be practicable and advisable to change any part of your present procedure with a view to bringing your operating costs more into line with those of other Banks."

Approved unanimously.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of January 16, 1943, regarding the actions taken or contemplated by your directors in connection with the resolutions adopted at the Conference of Chairmen on October 5, 1942.

"With regard to Topic 2, 'Relationship of Reserve Bank Auditors', you stated that you were emphasizing this matter by requiring the Auditor to report any matters which may appear to him to be irregular and that generally you were developing a closer relationship between the Auditor and the Board of Directors. From your comments it is assumed that your directors are in accord with the resolution adopted at the Conference and that the eight points set forth in the Statement of Principles will be recognized and maintained in your Bank. If we are incorrect in this assumption, it will be appreciated if you will advise us.

"When Mr. Leedy was here on January 28, I mentioned to him that your letter of January 16 did not include any reference to the procedure in regard to reports of indebtedness (Topic 3, 'Procedure for Reporting Indebtedness of Reserve Bank Officers and Employees') and that the information in our files did not indicate that the procedure agreed upon at the Chairmen's Conference was being followed at your Bank. I understood that the entire procedure would be reviewed upon Mr. Leedy's return to Kansas City. At your convenience, we would appreciate being advised as to the action taken or contemplated by your directors with respect to the matter. Enclosed for convenient reference is a mimeographed copy of the suggested procedure entitled 'Reports of Personal Indebtedness, etc.'."

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"We appreciate very much the information you and Mr. Leedy have furnished us and wish to assure you of our interest in learning of the further developments at your Bank regarding the various matters discussed at the Chairmen's Conference."

Approved unanimously.

Letter to Mr. Young, Chairman of the Presidents' Conference Committee on Currency Hoarding, Federal Reserve Bank of Chicago, reading as follows:

"There is enclosed a copy of my telegram of July 9, 1941 addressed to the Presidents of all Federal Reserve Banks at the request of the Committee on Currency Hoarding, which, at that time, was composed of Messrs. Sproul (Chairman), Leach, and McKee. There is also enclosed copy of a letter written by Mr. Sproul to Governor McKee on March 9, 1942 and its enclosure indicating that the Committee desired to continue receiving similar reports from time to time.

"Since the Committee was reorganized at the meeting of the Conference of Presidents held June 22-23, 1942, which resulted in a changed membership and the designation of you as Chairman of the Committee, I would appreciate advice as to whether you desire to have the Reserve Banks continue to submit such reports. According to our files, occasional reports have been received since last June from three or four of the Banks in addition to a monthly report submitted regularly by the Federal Reserve Bank of Cleveland. As you know, I have furnished copies of these reports to the members of your Committee. However, the last report received from the Cleveland Bank covered the month of January, 1943. The most recent report received from any of the other Reserve Banks was prepared by the Federal Reserve Bank of Atlanta covering October, 1942."

Approved unanimously.

Telegram to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Referring your letter of March 12, Mr. Agnew's letter and telegram of same date to Mr. Dreibelbis, and previous correspondence regarding payment by your Bank of punch card checks drawn by disbursing officers of Navy Department at Mare

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"Island and Bremerton Naval Stations, Governor Szymczak has discussed this matter with official of Treasury Department and understands that Treasury will proceed with revision of circular 176 in consultation with representatives of Federal Reserve System, but that owing to tremendous burden war has placed upon it, Treasury hopes your Bank will be willing to proceed with card punch check program without waiting for final agreement upon changes in circular 176. In circumstances, Board hopes you will accede to Treasury request with understanding that every effort will be made by Board to obtain revision in circular 176 at earliest practicable date."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

1. [Signature]
Vice Chairman.