

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 13, 1943, at 10:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Dreibelbis, General Attorney  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Vest, Assistant General Attorney  
Mr. Cagle, Assistant Chief of the Division of Examinations  
Mr. Pollard, Assistant Chief of the Division of Examinations  
Mr. Sloan, Federal Reserve Examiner in the Division of Examinations  
Mr. Hammond, Chief of the Correspondence and Publications Section of the Secretary's Office

At the request of Mr. Evans, there was presented for consideration the following memorandum dated April 13, 1943, addressed to the Board by Mr. Smead on the subject of "Member Bank Reports on Deposits for Computation of Required Reserves":

"It is recommended that when S-700, exempting war loan deposits from reserve requirements, becomes law, the Board's Form F.R. 414, 'Computation of Reserve to be Carried with the Federal Reserve Bank by Member Banks', be revised in the manner indicated on the attached copy thereof. This form is supplied to the Reserve Banks and is used by them, in turn,

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"as the basis of the weekly and semi-monthly reports of deposits which they obtain from member banks for reserve computation purposes. A proposed telegram and a proposed letter to the Federal Reserve Banks on the subject are attached. The letter also contains instructions with respect to corresponding revisions in the summary reports of deposits which the Federal Reserve Banks send to the Board.

"It will be noted that two revisions are proposed in form F.R. 414: The first revision would subdivide gross demand deposits into two parts, namely, 'Demand deposits of banks' and 'Other demand deposits'; the second revision would add 'War loan deposits' to the allowable deductions from gross demand deposits, in order to arrive at the correct amount of 'Net demand deposits' subject to reserve.

"The second revision is of course necessary in order to effectuate the provisions of S-700. The proposal that 'Demand deposits of banks' be segregated from 'Other demand deposits' is discussed in some detail in Mr. Thomas' memorandum, attached."

Mr. McKee raised the question whether the Board should ask member banks to submit daily reports for reserve computation purposes with the breakdown proposed by Mr. Smead since he thought it would place extra work on the banks at a time when there was a shortage of manpower. He said he would be reluctant to see the Board ask for any information that was not absolutely necessary, but that he would go along if the other members of the Board approved Mr. Smead's recommendation.

At Mr. Smead's suggestion, the following memorandum addressed to him under date of April 12 by Mr. Thomas, which accompanied the former's memorandum of April 13, was read to the meeting:

"In view of the enactment of S-700 some revision is necessary in the reports submitted by member banks to the Federal Reserve Banks and those submitted by the Reserve Banks to the Board giving figures of deposits for the purpose of computing reserve requirements. The simplest change in the report would be to insert the item of war-loan deposit accounts as an additional deduction from gross demand deposits in order to obtain the figure for net demand deposits against which reserves are computed. While these reports are being revised, however,

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"there are some other changes, which, if made, would provide useful and significant information for analyzing changes in the volume of deposits and in the reserve position of member banks. It would also save much work now spent on making estimates.

"The additional data needed could be provided by a subdivision of the item of gross demand deposits to show separately demand deposits of other banks and other deposits. This information is needed for the following reasons:

"(1) It would provide monthly figures of deposits exclusive of interbank deposits, by class of bank and by size of city. Because of the rapid growth in the volume of deposits, especially at banks outside the leading cities that report weekly, these figures are particularly needed at this time for the purpose of current detailed analysis of deposit changes. At present we must rely for such analyses on information for gross demand deposits, which include for the different groups of banks varying amounts of interbank deposits. Since interbank deposits fluctuate differently from other deposits, the figures of gross demand deposits may give a wholly incorrect impression of changes that have taken place in the volume of deposits standing to the credit of the general public--particularly when the figures are broken down by regions.

"(2) The amount of interbank deposits in the figure for any particular group of banks can now be determined only by an elaborate system of estimation based on other data. Because of the lack of data on interbank deposits other than those of weekly reporting banks, these estimates are sometimes subject to a wide margin of error. For example, a bank in National City, Illinois, which holds a large volume of interbank deposits, is not a weekly reporting bank and is included among country banks in cities with population of less than 15,000. This makes the figures for deposits of that group of banks in the St. Louis district not comparable with corresponding figures in other districts and of dubious significance.

"(3) Current figures of interbank deposits by classes of banks and size of city are in themselves significant. Although most of the interbank deposits are covered by the weekly reporting member banks, there are some important exceptions.

"(4) The wide fluctuations that take place in interbank deposits impair the usefulness of single-day figures now reported by weekly reporting member banks and for three or four call dates in each year by other banks. It would be much better to have daily average figures of interbank deposits, which could be readily computed if the member bank

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"reports of deposits for reserve purposes were revised to show interbank deposits separately.

"(5) In special surveys of the reserve position of individual banks made from time to time figures for interbank deposits have often been needed and have to be obtained from other sources, with considerable difficulty and with an indeterminate loss in comparability.

"The additional item should be easy to report, as banks having such deposits probably keep them separately on their books.

"The great majority of country member banks have no interbank deposits and therefore they would merely have to insert 'none' in their reports. An examination of the December 31 call reports of State member banks in three Federal Reserve districts (New York, Chicago, and Dallas) indicates that about 75 per cent of the country banks would have no interbank deposits to report. Moreover, many of those that do have some interbank deposits have very few interbank deposit accounts -- perhaps only one or two. On the other hand, in those cases where country banks hold a large amount of interbank deposits it is important to have adequate data on the subject."

In response to a comment by Mr. Ransom that the banks generally were overworked and understaffed and that it would be necessary to make a good case in order to justify obtaining additional information beyond that required by the statute, Mr. Thomas said that the daily report submitted to the Federal Reserve Banks by member banks for reserve computation purposes had always been required for two reasons--(1) to comply with the law and (2) to obtain information regarding trends. He went on to say that the Division of Research and Statistics needed the additional information being sought and that, if it were not obtained in these reports, it would be necessary for the Division to continue to make estimates which would be far less reliable than information thus obtained. He also said that by using the daily report for a dual purpose it would

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be possible to avoid asking for separate reports from time to time, and that the important point was not so much that data was desired with respect to interbank deposits as it was that the other information to be obtained would provide needed data between the call report dates.

Mr. McKee suggested that possibly the weekly report received from banks in 101 leading cities might be revised so as to obtain the necessary data and the number of cities increased, if necessary. Mr. Thomas agreed that that could be done but said that it would seem undesirable to change a series of reports that had been obtained for almost 25 years. He further stated that the question of changing the daily reserve computation report had received consideration each time the report was revised but that for some reason it never seemed propitious to make the additional changes now being proposed, and that the failure to do so had invariably been regretted. Mr. Thomas also said that the reports received from member banks in 101 leading cities contained information different from that included in the daily report under discussion.

Mr. Evans stated that it was his understanding that the information which it was proposed to ask the banks to include in these reports was readily available. Messrs. Smead and Thomas confirmed this understanding.

After some further discussion, the Board, upon motion by Mr. Evans, unanimously approved the recommendation contained in Mr. Smead's memorandum of April 13 and the proposed telegram and letter attached thereto, with the understanding that the matter would be cleared by Mr. Clayton with Chairman Eccles.



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Secretary's note: Following the meeting, the telegram and letter referred to were submitted to Chairman Eccles and were dispatched with his approval to the Presidents of all the Federal Reserve Banks in the following form:

The telegram read as follows:

"In view of law, effective today, exempting war loan deposits from reserve requirements, Board's Form F.R. 414, 'Computation of Reserve to be Carried with the Federal Reserve Bank by Member Banks', has been revised as follows:

First, substitute the following for present item 1:

1. GROSS DEMAND DEPOSITS:

- (a) Demand deposits of banks<sup>1</sup>/<sub>1</sub>  
(Corresponds to items 4 and 5 in Schedule E of the quarterly condition report)
- (b) Other demand deposits  
(Corresponds to items 1, 2, 3 and 6 in Schedule E of the quarterly condition report)

Second, insert new sub-item 2(c), reading 'War loan deposits of United States Government'.

"Weekly and semi-monthly report forms furnished by you to member banks for their use in reporting deposits should be amended accordingly. Suggest that reports on revised forms be obtained covering week ending April 16 and semi-monthly period ending April 15, but war loan deposits should not, of course, be excluded from 'Net demand deposits' until April 13.

"Letter follows, together with instructions regarding your reports to Board on Forms F.R. 413 and 422."

The letter read as follows:

"There is enclosed a copy of revised Form F.R. 414, 'Computation of Reserve to be Carried with the Federal Reserve Bank by Member Banks'. This form contains the revisions of which you were advised by telegram on April 13. As stated in that telegram, the weekly and semi-monthly report forms furnished by your Bank to member banks for their use in reporting deposits should be amended to conform to revised Form F.R. 414. Reports on the revised form should be obtained covering the week ending April 16 and the semi-monthly period ending April 15. War loan deposits should not, however, be excluded from 'Net demand deposits' until April 13, 1943.

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"The Board's Form F.R. 413, on which the Federal Reserve Banks report summary figures of deposits to the Board twice a month, has been amended to conform to revised Form F.R. 414. A copy of revised Form F.R. 413 is enclosed and a supply thereof will be sent to you under separate cover. It will be appreciated if you will furnish the Board with a report on the revised form beginning with the semi-monthly period ending April 30, 1943. In addition, please furnish a report on revised Form F.R. 413 covering the period April 13 to 15, both inclusive, and a report on old Form F.R. 413 covering the period beginning April 1 to 12, both inclusive.

"It will be observed that revised Form F.R. 413 calls for the amounts of 'Other demand deposits', rather than total demand deposits, of country banks located in centers having a population under 15,000. However, the first complete report, covering the semi-monthly period ended April 30, should also show, separately, the amount of interbank deposits of such banks.

"No change is being made in the weekly report Form F.R. 422. However, it is requested that separate reports on Form F.R. 422 be furnished covering the periods (1) April 10 to 12, both inclusive, when war loan deposits were subject to reserve requirements, and (2) April 13 to 16, both inclusive, when war loan deposits were exempt from reserve requirements."

Mr. Morrill reported that he had just been informed by Mr. Thurston that the President had signed the war loan deposit bill S. 700, and, at the suggestion of Mr. McKee, the Secretary was authorized to advise the Presidents of all the Federal Reserve Banks by telegram of the approval of the bill by the President and of the Board's action in amending Regulation D as set forth below. In this connection, it was understood that each Federal Reserve Bank would print and distribute copies of the amendment in its own district.

Upon motion by Mr. McKee, the following resolution was thereupon adopted by unanimous vote:

Resolved, That Regulation D, Reserves of Member Banks, be amended, effective April 13, 1943, by striking out the period at the end of the first sentence of paragraph (b) of section 2 thereof and

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inserting the following: "and, until six months after the cessation of hostilities in the present war as determined by proclamation of the President or concurrent resolution of the Congress, no deposit payable to the United States by any member bank arising solely as the result of subscriptions made by or through such member bank for United States Government securities issued under authority of the Second Liberty Bond Act, as amended, shall be included in net demand deposits or in time deposits which are subject to reserve requirements."

Mr. Evans stated that he had requested the Secretary to put on the docket for consideration at this meeting the question of having an observer for the Federal Reserve System attend the forthcoming United Nations Food Conference to be held at Hot Springs, Virginia, beginning May 18. He explained that the question had been raised with him by Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, who had inquired whether there would be objection to Walter B. Garver of the research staff of that Bank attending the Conference, and that he had inquired of Leslie Wheeler, Director of the Office of Foreign Agricultural Relations in the Department of Agriculture, as to whether there would be objection and, if not, what procedure should be followed. Mr. Evans further stated that Mr. Wheeler had said it was very unlikely that Mr. Garver would be permitted to sit in the meetings without having received an invitation but that, if it were felt desirable for the Federal Reserve System to be represented at the meetings, he thought that might possibly be arranged by the Board taking the matter up with Dean Acheson, Assistant Secretary of State, who was handling the arrangements for the Conference.



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In response to a query by Mr. Ransom, Mr. Evans stated that he was not prepared to make any recommendation at this time, but that he had considered the matter of sufficient importance to be brought to the Board's attention.

Following a brief discussion, it was agreed, at the suggestion of Mr. McKee, that the matter should be left to Mr. Evans and Chairman Eccles, with power to act on behalf of the Board.

Mr. McKee reported that recently he and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, had met with the executive committee of the National Association of State Bank Supervisors, and that one of the things which had been suggested by members of the Association's executive committee was that the maximum interest rate which might be paid on time and savings deposits under the Board's Regulation Q be reduced from 2-1/2 to 1-1/2 per cent. He said that Dr. Eugene E. Agger, vice chairman of the executive committee of the Association, had stated that when the State of New Jersey had reduced the maximum interest rate to 1 per cent the Postal Savings System had made a similar reduction in the rate applicable to postal savings deposits in the State and that he (Dr. Agger) was under the impression that the Postal Savings System would do likewise in other States where by State action the maximum interest rate was reduced. Mr. McKee went on to say that it was possible that the Postal Savings System would also take similar action if the Board changed its regulation even though such action applied to the country as a whole, except where the limitation had been fixed at a lower rate by action of a

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State legislature or State banking board. He said, however, that he assumed that the Board would not take action along these lines unless the Federal Deposit Insurance Corporation agreed to do likewise with respect to insured banks which were not members of the Federal Reserve System. He further stated that he thought it was difficult to justify the present maximum in view of the existing pattern of rates on Government securities and that, if any action were taken, he would see no reason to stop at 2 per cent but would be disposed to go to 1-1/2 per cent. He also said that some of the State bank supervisors attached considerable importance to the matter because many of their smaller banks could not afford to continue paying interest at the 2-1/2 per cent rate, and that it was his suggestion that the Board have a study made of the matter and that it be placed on the docket to receive consideration at a later date.

Mr. Ransom stated that he would not object to reducing the rate, but he pointed out that "interest rates" was one of the subjects for which Chairman Eccles had primary responsibility. He therefore suggested that Mr. Clayton take the matter up with the Chairman and advise him that the members of the Board present at this meeting would welcome a recommendation that the rate be reduced.

This disposition of the matter met with the approval of the other members of the Board.

Secretary's note: Mr. Clayton subsequently reported that Chairman Eccles was very much in favor of the Board taking action to bring about a reduction from 2-1/2

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to 1-1/2 per cent in the maximum rate that might be paid on time and savings deposits by insured banks, but that the Chairman had no definite procedure to suggest except that the case, including its relationship to the rate on postal savings, should be well prepared, and that it should be undertaken jointly with the Federal Deposit Insurance Corporation.

Mr. Ransom then read the following memorandum addressed to him by Mr. Paulger under date of April 10, 1943:

"R. N. McLeod, Reviewing Examiner for the F.D.I.C., called this morning to say that the two national banks of Albany, Georgia, (the Albany Exchange National Bank, affiliated with the C. & S. National Bank of Atlanta, and the City National Bank, managed by J. T. and W. B. Haley, and known as the Coca Cola Bank) were giving up their national bank charters and taking out state bank charters. This is being done for the purpose of being able to charge Exchange. As state banks they desire to be insured and have applied to the F.D.I.C. for deposit insurance. According to Mr. McLeod, Mr. Crowley has told these banks that the F.D.I.C. will be unwilling to consider insuring them as state banks unless and until they increase their capital commensurate with the business they are doing, as well as providing for their prospective business in the future. I understood from Mr. McLeod that Mr. Crowley also told them that it was a mistake for them to withdraw from the System for the purposes mentioned and that they ought to remain as national banks.

"Mr. McLeod said Mr. Crowley had wanted us to know about the intentions of these two banks and how the F.D.I.C. felt about it. Clyde Roberts, District Supervisor for the F.D.I.C., is at Albany today discussing the matter with the banks.

"The F.D.I.C. will keep us advised."

He also handed to the other members of the Board copies of recent statements showing the resources and liabilities of the two national banks referred to in Mr. Paulger's memorandum.

Mr. Ransom reported that J. T. Haley, President of The City National Bank of Albany, had called on him last September to discuss the

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possibility of the bank surrendering its national charter and of withdrawing from the Federal Reserve System. At that time, according to Mr. Ransom, Mr. Haley had estimated that the bank could increase its earnings from \$18,000 to \$20,000 a year by making exchange charges. Mr. Ransom said that, at Mr. Haley's request, he had taken the trouble to analyze the bank's statement, and had pointed out to him that the bank could invest its idle cash in Government securities and thus increase its earnings without resorting to the practice of charging exchange. He also said that he had pointed out the advantages of membership and had urged Mr. Haley to give the matter most careful consideration before reaching a decision to leave the System. Mr. Ransom stated that he had also discussed the subject with H. Lane Young, President of The Citizens and Southern National Bank of Savannah, Savannah, Georgia, and a member of the Federal Advisory Council from the Sixth Federal Reserve District, because one of the Albany banks was affiliated with Mr. Young's bank. Mr. Ransom further stated that he had suggested to Mr. Haley when he was in Washington that he stop by Atlanta on his way home and discuss the matter with his correspondent banks and with President McLarin of the Reserve Bank, that he had subsequently talked with Mr. McLarin and had corresponded with both Mr. McLarin and Mr. Haley, and that apparently he had made no impression on either Mr. Haley or Mr. Young with his argument that the Albany banks could make more money by following a sound banking policy and investing idle cash in Government securities. He said that they seemed to think that

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charging exchange was a highly profitable practice, that they would not admit that there was any other way to increase the earnings of the Albany banks, and that they both mentioned that the loans held by the banks were being liquidated rapidly. Mr. Ransom indicated that he had no doubt that the Albany banks had installed service charges, and that, while he recognized the fact that there was nothing the Board could do in the situation, he felt the matter was of sufficient importance to be brought to the Board's attention, particularly in view of the pendency of the question what to do about exchange charges under Regulation Q.

Mr. Ransom then stated that, inasmuch as he expected to be out of the city for the next two weeks, he had requested that some time be set aside at this meeting for a discussion of the absorption of exchange charges under Regulation Q, and that, while he had hoped to be in a position to make a definite recommendation at this time with respect to Regulation Q, he had concluded that the problem should be given further study. He said that he had asked Mr. Hammond to prepare a factual statement of the problems relevant to Regulation Q involving non-par clearance of checks, absorption of exchange charges, and payment of interest on demand deposits, and that he had obtained a memorandum from Mr. Dreibelbis with respect to alternatives for correcting the absorption of exchange. These memoranda, he said, had been mimeographed and copies thereof, together with a copy of Mr. Wyatt's memorandum opinion dated June 3, 1936, regarding the definition of "interest" in section 1(f) of Regulation Q, as well as a memorandum of his own dated March 26, 1943, describing the



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situation confronting the Board with respect to the absorption of exchange charges and recommending certain action by the Board, would be furnished to each Board member.

Mr. Ransom then made substantially the following statement:

The absorption of exchange is becoming an increasingly difficult problem and has placed the System in an embarrassing position because the provisions of Regulation Q in this respect have not been enforced. I feel that the Board has a grave responsibility to defend par clearance, and that any failure to protect it would be a backward step, particularly in view of the fact that banks in a majority of the States do not charge exchange.

I would like the Board to consider the various courses of action which might be pursued and, after reviewing the alternatives, to decide whether action should be taken at this time or whether nothing should be done. I do not believe that the arguments in favor of doing nothing are persuasive. On the other hand, if it is decided to take action, it will be necessary to advise the Chairmen of the Senate and House Banking and Currency Committees what we plan to do. In addition, it seems obvious that the moment we take action we will have a fight on our hands. The argument is made that to do anything that would disturb banks as of today would be badly timed. That would not worry me if we could take the matter into court. Some members of the staff feel that we should enforce Regulation Q as it stands, regardless of consequences. It seems apparent that unless something is done more banks will start charging exchange. However, we can not expect substantial support from any quarter. People in the credit field would like to have the regulation strictly enforced but would not support a movement to bring that about. The chances are that the Board would not even get support from the Federal Reserve Banks. The large commercial banks would be glad to have the regulation enforced but would not come out in the open in favor of it because of correspondent relationships.

Despite the fact the Board will stand alone, I think that it will be compelled to decide this problem promptly and I think action should be taken for two reasons, namely, (1) to defend par clearance and (2) to enforce Regulation Q. If and when a report is made to Messrs. Wagner and Steagall, I doubt that they would agree to introduce legislation on the subject. Moreover, the Bureau of the Budget would

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probably say that it is a bad time to propose such legislation. Nevertheless, the absorption of exchange is increasing bank operating costs and hurting the prestige of the Federal Reserve System.

Mr. McKee stated that he felt it would be advisable for the Board to consider what kind of a statement it could make to the press so that the problem would not assume such great proportions from the standpoint of public relations, and that the Board's approach should be to say that its action was not directed against small banks charging exchange or making charges commensurate with services rendered, but that the Board was opposed to the absorption of exchange, which constituted the payment of interest on demand deposits and a violation of the law, and that it therefore had no alternative other than to enforce Regulation Q.

Mr. Ransom indicated that this approach would run counter to the principle of par clearance on which the Federal Reserve System was built, and that the System had never hesitated to espouse the cause of par clearance although he recognized that the Board had no authority to prohibit nonmember banks from charging exchange. He added that there would be no objection to making a statement to the effect that the Board had no jurisdiction in the matter so far as nonmember banks were concerned.

Mr. McKee stated, however, that the Board ought to stick to the authority vested in it by Congress and not try to alter a mechanism not within such authority, that the Board was concerned with the problem only to the extent that it affected member banks, and that that was why

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he had felt that if this were fully explained to the public, together with the fact that the Board would not be interfering in matters beyond the scope of its authority, the public reaction would not be unfavorable.

Mr. Thurston pointed out that any statement which the Board might release to the press on this subject would be of interest only to an informed banker public because the general public was not interested in par clearance as such or in the restrictive provisions of Regulation Q with respect to the absorption of exchange.

Mr. Ransom repeated his statement that he was not ready today to urge that the Board give favorable consideration to the point of view expressed in his memorandum of March 26, 1943, because of the differences of opinion existing with respect to the whole problem. He said that, while he agreed with Mr. Wyatt's opinion of June 3, 1936, it was impossible to obtain a legal opinion in which all lawyers concurred, and that, as a matter of fact, issue had been taken with Mr. Wyatt's opinion by Francis Brown, Solicitor for the Federal Deposit Insurance Corporation. He went on to say that in his approach to the problem he had assumed (1) that the Board would stand for par clearance and (2) that the Board was bound by the opinion of its counsel that the absorption of exchange was a violation of the law prohibiting the payment of interest on demand deposits. Mr. Ransom stated that as he had pointed out in his memorandum the Board, in his judgment, had three alternatives, (1) to continue to do nothing, (2) to take the problem to Congress, and (3) to take the problem to the courts for judicial review, that he preferred the last

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alternative and felt that Congress would also prefer it, that, if the Board took the matter to court, he felt it would win the decision, and that while this course would involve delay there would also be delay in attempting to get legislation through Congress. Mr. Ransom concluded by saying that whatever move the Board made this time it should be prepared to maintain its position and that it could ill afford to retreat regardless of who intervened.

Mr. McKee stated that he could not see that the question before the Board, namely, the enforcement of Regulation Q, necessarily involved the broader question of par clearance, and he reiterated his position that the Board should deal only with member banks and confine its action to ruling that the absorption of exchange charges was a payment of interest on demand deposits in contravention of the law and Regulation Q.

At this point, Messrs. Thurston, Smead, Paulger, Dreibelbis, Thomas, Vest, Cagle, Pollard, Sloan, and Hammond 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 April 12, 1943, were approved unanimously.

Letter to the board of directors of "The Hill County State Bank of Havre", Havre, Montana, 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 Minneapolis.

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The letter also contained the following special comment:

"In view of the fact that Northwest Bancorporation will become a holding company affiliate of your bank upon its admission to membership, the Federal Reserve Bank of Minneapolis has been informed that before stock in the Federal Reserve Bank is issued to your bank it will be necessary for Northwest Bancorporation to comply with any conditions to the issuance of a general voting permit entitling it to vote the stock which it owns or controls of your bank."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Hill County State Bank of Havre', Havre, Montana, 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 Montana for his information.

"The Board has not prescribed a special condition with respect to increasing the number of directors or otherwise bringing the number of directors into conformity with the requirements of the articles of incorporation, as it is felt that the matter is more appropriately an administrative matter than one requiring a condition of membership. In this connection, however, it has been noted that efforts are now being made to obtain two additional directors and that if satisfactory additions cannot be obtained other appropriate steps will be taken to remedy the situation.

"Before issuing stock in the Federal Reserve Bank of Minneapolis to 'The Hill County State Bank of Havre', you are requested to satisfy yourself that Northwest Bancorporation has complied with any conditions to the issuance of a general voting permit entitling it to vote the stock which it owns or controls of such bank."

Telegram to Mr. Coffey, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, stating that, subject to the conditions



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set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of "The Hill County State Bank of Havre", Havre, Montana, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to 30 days from the date of the telegram unless an extension of time is granted by the Board. The conditions contained in the telegram upon which the permit was authorized were as follows:

1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in same form as that which applicant executed on May 14, 1942, as a condition to issuance of permit dated May 25, 1942.
2. Prior to issuance of general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (Form P-3) executed by Citizens State Bank of Waterville, Waterville, Minnesota, and Exhibit N (Form P-4) executed by applicant and consented to by Citizens State Bank of Waterville, or furnish assurances satisfactory to you that it will deliver such exhibits to you within 30 days after issuance of general voting permit authorized herein.
3. Prior to or simultaneously with issuance of general voting permit authorized herein, "The Hill County State Bank of Havre", Havre, Montana, shall be admitted to membership in the Federal Reserve System.

The telegram also stated that the Board had approved the application for membership referred to in condition 3 subject to certain conditions as set forth in a letter being sent to the bank today.

Approved unanimously.

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Letter to Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of March 26, 1943, submitting the request of the Hadley Falls Trust Company, Holyoke, Massachusetts, for approval of a plan for adjustment of its capital structure involving reduction in the par value of its preferred stock 'A' from \$1,000,000 to \$400,000 and the par value of its preferred stock 'B' from \$250,000 to \$125,000. You also recommend that condition of membership numbered 28 to which the member bank is subject be waived or modified and suggest that consideration be given to modification of its condition of membership numbered 10.

"In accordance with your recommendation, the Board will interpose no objection to the consummation of the plan substantially as submitted, provided prior approval of the appropriate State authorities is obtained and Counsel for the Reserve Bank is to be satisfied as to the legal aspects involved. Also in accordance with your recommendation, the Board cancels condition of membership numbered 28 which reads as follows:

'Holders of preferred stock issued by the bank shall be entitled to dividends only on the basis of the par value of the stock, and such stock shall not be retirable at a premium over and above its par value plus accrued dividends, except out of net profits and only if and when deemed advisable by the board of directors of the bank.'

"With respect to modification of condition of membership numbered 10 it is noted that, after consummation of the plan, the aggregate par value of the bank's capital stock will be \$675,000 and surplus will amount to \$200,000. As you point out in your letter, the condition presents no present difficulties and, as you know, the condition was one of the standard conditions at the time the subject institution was admitted to membership and a number of other banks are subject to it. In view of the circumstances, therefore, the Board is not modifying the condition."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

1/Quasi Ransom  
Vice Chairman.