

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 5, 1943, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 4, 1943, were approved unanimously.

Memorandum dated May 3, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending (1) that Harold F. Chapin be appointed as a junior economist in that Division, with basic salary at the rate of \$3,200 per annum, effective as of the date upon which he enters upon the performance of his duties, and (2) that the basic salary of Mrs. Lyndall Coffey McCloud, a junior economist in that Division, be increased from \$2,900 to \$3,200 per annum, effective May 16, 1943.

Approved unanimously.

Memorandum dated May 4, 1943, from Mr. Morrill, reading as follows:

"On December 26, 1942 the Board established, effective December 24, 1942, a 48-hour work week for its employees consisting of 6 days of 8 hours each, with the understanding that overtime compensation would be paid on the basis provided

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"in Senate Joint Resolution 170, approved December 22, 1942. This was done as a matter of policy although counsel was of opinion that the Board was not legally bound by the Joint Resolution in view of the provisions contained in paragraph 4 of section 10 of the Federal Reserve Act.

"As you know, the Joint Resolution terminated on April 30, 1943 and there is now pending in Congress legislation which would continue the same or increased benefits for a further period. In this connection, the Bureau of the Budget under date of April 26, 1943 advised all Government departments, establishments, and agencies that they should continue the existing work schedule for Federal employees, including a full day's work on Saturday, in view of the probability that the Congress may take final action on the pending overtime pay legislation at an early date.

"In the circumstances and in the absence of further action by the Board, the payment of overtime and supplemental compensation will be continued on the same basis as that in effect on April 30, 1943."

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"This is to advise you that the Board of Governors notes without objection the salaries paid to employees of your Bank as of January 1, 1943, which were submitted in accordance with the Board's letter dated December 28, 1942 (S-604)."

Approved unanimously.

Letter to the board of directors of the "First State Bank in Temple", Temple, Oklahoma, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City:

- "4. Such bank shall increase the number of its directors to not less than five, the minimum number required in the case of all member banks under the provisions of Section 31 of the Banking Act of 1933, as amended."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'First State Bank in Temple', Temple, Oklahoma, 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 Bank Commissioner for the State of Oklahoma for his information.

"In connection with the condition of membership numbered 4, it has been noted that the bank has agreed to increase the number of its directors to five at an early date. With the understanding that the matter will be attended to without undue delay, the Board will not object to the admission of the bank to membership with only four directors.

"It has been noted that the management agreed to charge off on March 13, 1943, the day following the close of the examination, the estimated losses shown in the report of examination for membership; therefore, the usual condition of membership regarding the elimination of estimated losses has not been prescribed. It is assumed, however, that you will satisfy yourself prior to completion of membership that the losses have been eliminated.

"It is assumed also that you will follow the matter of the bank's reducing to within statutory limits the excess balance in a nonmember bank."

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

"This refers to your letter of April 27, 1943, addressed to Mr. Smead, regarding the inquiry received by you from The Continental Illinois National Bank and Trust Company of Chicago as to the meaning of the language of clause (3) of paragraph (B) of section 10 of the revised form of guarantee agreement of April 6, 1943.

"As we understand the provision in question, the guarantor is required to apply to the payment of the guaranteed loan any funds obtained by it as the result of the setoff of amounts owing to the borrower on war production contracts against amounts owed by the borrower to the Government. The provision would apply, of course, only where the guarantor has become the owner of all or a part of the guaranteed loan.

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"Assume, for example, that the borrower is a war contractor who has claims against the War Department on Contract A amounting to \$100,000, that the War Department has a claim against the contractor arising independently of such contract which amounts to \$500,000, and that the War Department is entitled to set off the \$100,000 owed by it to the contractor against the \$500,000 owed by the contractor to the War Department. In such a case, the guarantee agreement would require that the \$100,000 appropriated by the War Department by virtue of its right of setoff be applied to the reduction of the guaranteed loan rather than to the reduction of the War Department's claim against the contractor.

"However, in the above example, if the War Department's claim had arisen out of Contract A instead of independently of such contract, the guarantee agreement would not have required the guarantor to apply the \$100,000 to the guaranteed loan; and in such a case, the setoff would have operated to reduce the War Department's claim under the contract. This exception in the case of claims arising under the same contract is similar to the provision of the Assignment of Claims Act of 1940, which authorizes the inclusion of 'no set-off' clauses in contracts of the War and Navy Departments, but limits the application of such clauses to indebtedness arising independently of the particular contract.

"We have not submitted this matter to the War and Navy Departments and Maritime Commission and we cannot, of course, undertake to express the views of those Agencies. In any event, the circumstances which may involve the provision in question are so varied that the precise effect of the provision cannot be completely stated without reference to the facts of a particular case."

Approved unanimously, together with
a letter to Lieutenant Colonel Paul Cleveland, Chief of the Loan Section of the Advance Payment and Loan Branch, Fiscal Division, War Department, transmitting copies of the incoming letter from Mr. Olson and the above reply.

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

"Replies have been received from all except one of the Federal Reserve Banks to the Board's letter of March 24, 1943, with respect to the practice followed in honoring claims for shortages in packages of currency, which a Reserve Bank has

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"shipped to a member bank and the member bank has turned over to a Naval Disbursing Officer without piece verification by the member bank.

"Five Federal Reserve Banks report that, in a case similar to the one described, they would not recognize a claim for shortage. Four Reserve Banks report that if an offsetting difference were found on the same day the currency was handled, they would make good the shortage. Two Banks report that, while it is not their practice to recognize a claim for shortage from a member bank when currency has been paid to a third party without verification, they feel an exception should be made with respect to Government Disbursing Officers.

"In view of the variations in the practices of the Federal Reserve Banks, it is suggested that the matter be referred to the Presidents' Conference Committee on Miscellaneous Operations, with the view of determining whether a uniform practice may be worked out. If you agree, we will send copies of the Banks' replies direct to Mr. Allan Black, Chairman of the Committee."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. Coates
Chairman.