

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 12, 1943, 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. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division of
Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel

Mr. Leonard stated that he had had a further talk with Mr. Stocking, Associate Director of the Bureau of Program Requirements, War Manpower Commission, with respect to the request that had been made by the Board that the Federal Reserve Banks be declared essential activities, and that Mr. Stocking had stated that the Review Committee of the Commission had taken the position that the Federal Reserve Banks were not Government agencies and that the question whether they should be classified as essential activities was to be discussed tomorrow by the Essential Activities Committee of the Commission. Mr. Stocking also stated, Mr. Leonard said, that the suggestion had been made that the Banks might be classified as needed local activities but that one of the difficulties of this procedure would be that the Banks could be so

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classified in only three out of four group areas which would exclude Boston and New York and four or five branches of Federal Reserve Banks. Mr. Leonard added that it was clear from the discussions that the Commission was reluctant to classify the Banks as essential activities, and that he had informed Mr. Stocking that the status of the matter was to be reported to the Board at a meeting this morning, that the Board was meeting with the Presidents of the Federal Reserve Banks later in the week, and that the Board would like to have some indication before that time as to whether the Banks could be so classified.

Chairman Eccles stated that if the Commission were inclined not to classify the Banks as essential it would be his suggestion that a request be made that a decision on the matter be deferred, with the thought that the whole subject would be reviewed by the Board with the Presidents of the Federal Reserve Banks while they were here during the latter part of the week and, if the situation with respect to manpower in the Banks were as critical as previously stated by the Presidents, the Board would inform the Treasury, War, and Navy Departments and the Maritime Commission that the fiscal agency operations for the Treasury, and the operations for the services and the Maritime Commission under Regulation V, were threatened with a breakdown because of the lack of the necessary manpower, and Mr. Byrnes, Director of Economic Stabilization, would be informed that, because of the unwillingness of the War Manpower Commission to classify the Banks as essential activities, the System was not in a position to undertake the additional responsibility involved in the proposed executive order which would confer upon the

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Board authority to regulate the use of credit for purchasing, carrying, or trading in commodities, real estate, or securities.

In the discussion which ensued of the position of the Federal Reserve Banks if they were not classified as essential activities, Mr. Leonard stated that he and Mr. Clayton had been given the assurance in their conversations with Mr. Stocking that they would be informed beforehand in the event it appeared that an adverse decision was to be made on the Board's request.

At the conclusion of the discussion, it was agreed unanimously that Mr. Leonard should advise Mr. Stocking that, if it should appear that the request for the classification of the Federal Reserve Banks as essential activities would not be granted, the Board would like to have the War Manpower Commission postpone a decision pending further discussion with representatives of the Board, which would give the Board an opportunity to discuss the matter with the Reserve Bank Presidents and with other agencies of Government whose interests might be adversely affected by a negative decision. If such postponement occurred, it would be on the grounds of the public interest involved and the responsibility that rested with the Board to endeavor to see that a wrong decision was not made.

At this point Mr. Leonard withdrew from the meeting.

Mr. Ransom referred to the earlier discussions by the Board of 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 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 photostats of registration statements,

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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. Mr. Ransom stated that in accordance with the request of the Board he had discussed the matter further with Attorney General Biddle, and that subsequently Mr. Dreibelbis had conferred with representatives of the Antitrust Division of the Department and had suggested, for the reasons set forth in a memorandum prepared by him under date of May 11, 1943, that an arrangement be made under which the request of the Department would be acceded to only to the extent of making the registration statements available to representatives of the Antitrust Division, with the understanding that any information obtained would be regarded as confidential, would be obtained by means of the Department's own staff, and would be used only as a lead to obtain evidence from other sources, and that, if for any reason the situation in this respect changed, the Department would subpoena the records or the problem would be worked out on some other mutually satisfactory basis. Mr. Ransom went on to say that, because of the possible adverse effect upon cooperation by the public in the observance and enforcement of Regulation W, he was very reluctant to make the registration statements available to the Antitrust Division but that he had come to the conclusion that the Board was not in a position to decline the request of the Department of Justice, that the arrangement proposed by Mr. Dreibelbis represented the least that could be done in the direction of granting the request, and that if the Board were not willing to take that step the only alternative

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was to decline the request. He added that he had given the matter careful consideration and would recommend that the Board approve a letter to the Department of Justice which had been prepared by Mr. Dreibelbis, and which Mr. Ransom read.

The matter was reviewed from the standpoint of (1) the commendable objective of the Antitrust Division of the Department of Justice of developing sufficient information to permit action against a group of small-loan companies which were in the "loan shark" class and under more or less common ownership and which were preying on small wage earners, (2) the adverse effects on public support and enforcement of Regulation W which might result if registration statements were made available, and (3) the legal relationships of the Board and the Department of Justice and, aside from any legal questions involved, the desirability of the maintenance of cooperative relationships between the Board and the Department as Government agencies.

At the conclusion of the discussion, Chairman Eccles suggested that the position should be taken with the Department of Justice that the powers granted to the Board under Regulation W were special powers in the war emergency, that to use information obtained pursuant to the provisions of Regulation W in the manner proposed by the Department of Justice would be for a purpose which was never intended when the powers to obtain the information were conferred upon the Board, that such use might cause irreparable injury to the public support of the regulation and the ability of the Board to administer it in the future as well as the ability to properly discharge the further responsibilities that would be conferred upon

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the Board in another executive order which had been proposed, and that if the Board declined the request it would be for that reason and not because of any lack of sympathy with what the Department was trying to accomplish in this particular case.

Mr. Ransom said that he told Attorney General Biddle the last time the matter was discussed with him that if discussions with the Anti-trust Division did not result in a solution of the problem that was satisfactory to the Board he would like the opportunity of taking it up again, so that the way was open for a further discussion with Mr. Biddle if the Board should feel that that was desirable.

It was agreed unanimously that Messrs. Eccles and Ransom should have a further conference with the Attorney General regarding the matter.

There was then presented a memorandum dated April 16, 1943, from Mr. Cherry, Attorney, submitting a routine request from the Chairman of the Banking and Currency Committee of the Senate requesting a report on Senate bill 986 which would eliminate Federal Deposit Insurance Corporation assessments payable by insured banks on deposits secured by obligations of the United States. The memorandum raised the question whether there was any reason in this case to depart from the Board's general policy of not submitting reports in response to routine requests of this kind in the absence of circumstances which would make the submission of a report desirable.

There was unanimous agreement that a report should not be submitted at this time but that the progress of the legislation should

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be watched by the Legal Division so that, if it should appear that a report should be submitted or that a representative of the Board should appear at hearings on the bill, the necessary action could be taken.

In connection with the above matter, Mr. Ransom suggested that in the future when a routine or other request was received from Congress for a report on proposed legislation, it be circulated among the members of the Board so that any member of the Board would have an opportunity to suggest that the matter be discussed or that a report be prepared. Chairman Eccles suggested that in order to save time the requests be placed on the docket with a recommendation from Mr. Ransom in each case whether a report should be made.

Chairman Eccles' recommendation was approved unanimously.

Reference was made to an undated letter addressed to the Board by Mr. Lichtenstein, Secretary of the Federal Advisory Council, asking that he be advised of any subjects which the Board desired the Council to discuss at its next meeting, the date of which had been set for May 23-24, 1943.

The Secretary was requested to advise Mr. Lichtenstein that the Board had no topics to suggest at this time.

At this point Mr. Evans left the room.

Before this meeting there had been circulated among the members of the Board a memorandum dated April 23, 1943, from Mr. McKee, submitting a memorandum dated April 21, 1943, from Chairman Eccles in which the opinion was expressed that the letter to the Presidents of all the Federal

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Reserve Banks with respect to the scope, procedure, and frequency of examinations of member banks, which was approved at the meeting of the Board on March 17, 1943, overemphasized the importance of maintaining bank examinations on a peace-time schedule.

Chairman Eccles stated that since writing his memorandum he had discussed the matter further with Mr. McKee, that in the circumstances, including the fact that under the law the Office of the Comptroller of the Currency was required to make two examinations of national banks each year, there did not appear to be any other position for the Board to take in the matter at this time than that stated in the letter, but that if some way could be found to do so, in the interest of the manpower situation, he would like to see examinations practically discontinued during the war except in the case of problem banks which should be urged to take such steps as might be necessary to put themselves in sound condition.

The meeting then recessed and reconvened at 3:15 p.m. with the same attendance as at the close of the morning session except that Mr. Evans was in attendance and Mr. Parry, Chief of the Division of Security Loans, Mr. Thomas, Assistant Director of the Division of Research and Statistics, and Mr. Brown, Administrative Assistant in the Division of Security Loans, were also present.

Consideration was given to a draft of reply prepared at Chairman Eccles' request to a letter received by him under date of April 19, 1943, from Senator Mead requesting that Chairman Eccles give an enclosed outline of suggested legislation to provide intermediate and long-term credit

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for American small business enterprises careful consideration and place it before the Board of Governors "for such action and suggestions as you collectively or individually may wish to make to our Small Business Committee". The reply had been prepared as an expression of Chairman Eccles' personal opinion, and Mr. Draper had suggested that it be considered by the Board with a view to seeing whether the members of the Board would be agreeable to having it made a Board reply.

The draft was discussed, and Mr. Morrill was requested to make certain changes in the letter in accordance with the discussion, to convert it to a reply which would speak for the Board as such, and then to resubmit it to the Board for approval.

There was also presented a memorandum dated March 29, 1943, from Mr. Dreibelbis, stating that the Board had received a number of letters raising the question of a bank's right to charge the holder a fee for collecting an out-of-town check, that heretofore the Board had held that such charges were affected by the so-called Hardwick amendment to paragraph 1 of section 13 of the Federal Reserve Act, that he could not subscribe to this conclusion, and that it was his opinion that the better construction of the amendment was that it did not apply in such cases. The memorandum had been circulated before this meeting, and at Mr. Szymczak's request Mr. Dreibelbis discussed the reasons for his position. The whole matter was discussed in the light of the previous rulings of the Board on this point and what the effect would be of a ruling based on Mr. Dreibelbis' opinion.

At the conclusion of the discussion, the matter was referred to a special committee consisting of Messrs. Szymczak, Ransom, and Clayton with power to act.

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Mr. McKee referred to informal discussions which had been had with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, with respect to a reduction in the maximum interest rate prescribed by the Board's Regulation Q, Payment of Interest on Deposits, and the Federal Deposit Insurance Corporation's Regulation IV, that might be paid by member and nonmember banks, respectively, on time and savings deposits, and he inquired as to the attitude of the Board with respect to a reduction in the maximum rate. All of the members present indicated that, if the Federal Deposit Insurance Corporation were agreeable to a reduction to 1-1/2 per cent in the maximum rate prescribed in its regulation, they would favor a similar reduction in the maximum rate prescribed in Regulation Q.

At Mr. Draper's request, Mr. Carpenter read a memorandum addressed to the Board by Mr. Draper under date of May 10, 1943, as follows:

"After a relatively quiet period which followed the issuance of the President's 'hold-the-line' order, the stock market has become strong and active again. Public trading in margin accounts, which on balance continues to be on the buying side week after week, has increased further so that now it stands at about 50% of the total. The amount of credit extended by brokers to their customers has also increased--to a level of \$610,000,000.00 at the end of March which is about \$120,000,000 above the low level of last August. The increase in stock prices from the low level of about a year ago has now amounted to about 60%. These prices are now (May 8) at a new high level for the movement and are within a few points of the level which prevailed before the fall of France in May, 1940.

"Possible Board action at this time to increase the margin requirements would be designed to moderate speculation in stocks and perhaps restrain further violent advances in stock prices. If it is to be at all effective in restraining mounting prices, experience has shown that such action must be taken before a bull market gets too strong.

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"Appropriate action at this particular time would be to increase the present margin requirements from the 40% level to the 55% level. This would bring margin requirements back to the highest level at which they have ever been. If necessary it could be followed later by a further increase (perhaps even to 100%), and as a last resort by imposition of a 100% maintenance requirement against margin accounts and loans subject to Regulation U. In this connection it is interesting to note that under the former statutory formula the average level of margin requirements would have risen during the past year from less than 30% to about 40%, with requirements on many stocks at the absolutely statutory maximum of 45%.

"If the Board were to take such action, it should at the same time make certain technical changes in Regulations T and U -- to stiffen the rule against withdrawals of cash or securities and to simplify the requirements relating to brokers' 'omnibus' borrowings. For 'Specialists', however, for technical reasons, the withdrawal rule should not be tightened and the margin requirements should be left at their present level.

"There are some incidental policy questions to be considered. 1. Should the Board discuss the proposed action in advance with the President of the Stock Exchange; 2. with the Chairman of the S.E.C.; 3. with Mr. Byrnes or some representative of his office? As a matter of procedure some decision is called for with reference to these policy questions.

"A final question is one of timing. Should the proposed action be taken while certain possible steps to broaden the Board's powers are still pending, or should this action be deferred until those steps have been taken or discarded? In answering this question, I hope the Board will take into consideration the fact that action under the Board's present powers could cover the field in which the need for action is most urgent, i.e., the organized markets in listed securities. Action with respect to unlisted securities, possible only under new powers, could be taken later in case these new powers were granted."

The questions raised in the memorandum were discussed and it was agreed (1) that Chairman Eccles would call Mr. Purcell, Chairman of the Securities and Exchange Commission, and inform him confidentially that the Board was considering the matter of increasing margin requirements prescribed by Regulations T and U and would like to have the views of the Commission as to the desirability of that action and the extent to which it should go, and (2) that the

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matter should be put on the docket for consideration at the meeting of the Board on May 18, 1943.

At this point, Messrs. Thurston, Parry, Dreibelbis, Vest, Wyatt, Thomas, and Brown 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 May 11, 1943, were approved unanimously.

Memorandum dated May 10, 1943, from Mr. Paulger, Chief of the Division of Examinations, recommending that the official headquarters of Carl V. Adams, Assistant Federal Reserve Examiner, be changed from Chicago, Illinois, to Omaha, Nebraska, effective May 16, 1943.

Approved unanimously.

Letter to "The Hill County State Bank of Havre", Havre, Montana, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks, as amended following submission to the War Department, Navy Department, and Maritime Commission for their suggestions, in accordance with the action taken at the meeting of the Board on May 4, 1943:

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"Referring our wire May 1, after consulting with War Department, Navy Department, Maritime Commission and Federal Reserve Banks, Board has decided that hereafter in any case in which a financing institution charges a borrower a commitment fee in connection with a loan that is guaranteed pursuant to Executive Order 9112, amount of such fee may not exceed 1/4 of 1 per cent per annum on undisbursed portion of loan; also that no termination fee, service fee, or other fee of a similar character, except charges covering out-of-pocket expenses of a financing institution, may be charged a borrower in connection with such a guaranteed loan. As experience shows that commitment fees are called for only in a relatively few cases, Board is not issuing a press release in this matter and is transmitting it to you for your guidance in handling applications for Regulation V loans."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. C. C. C.
Chairman.