

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 19, 1943, at 11:30 a.m.

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

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 18, 1943, were approved unanimously.

Memorandum dated May 15, 1943, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that Herbert A. Johnson be appointed Administrative Assistant in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$4,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memoranda of this date from Mr. Morrill, recommending (1) that Mrs. Lillian M. Holley and John R. Simms be appointed as cafeteria helpers in the Secretary's Office on a temporary basis for a period of not to

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exceed 60 days, each with salary at the rate of \$1,080 per annum, effective May 19, 1943, and (2) that the resignation of Dorothy Oliver as a cafeteria helper, which was attached to the memoranda, be accepted effective as of the close of business on May 27, 1943.

Approved unanimously.

Memorandum of this date from Mr. Goldenweiser, Director of the Division of Research and Statistics, reading as follows:

"The Treasury wishes to appoint a Federal Reserve man on a mission which it is sending to Honduras to review the banking situation and help establish a central bank if one is needed. The Honduran request for assistance was referred by the State Department to the Treasury some months ago; but it has only now come suddenly to a head. The Treasury is under the necessity of letting the Honduran Government know immediately the make-up of the mission which it proposes to send. The problem of freeing a man from the Board's staff for this purpose at this time is peculiarly difficult, but it can be solved. If no more convenient solution can be found, Mr. Triffin, who is needed for the central bank job in Paraguay in which the Board's staff is playing the leading role, could be made available for a limited period on the Honduran mission. The Treasury is sending Mr. Bernstein, assistant director to Harry White, and Mr. de Beers, a Latin American man in Mr. White's division. It would like to inform the Honduran Government today of the make-up of the impending mission, using Mr. Triffin's name for the third man, but with the understanding that we can substitute another man if that seems better to us.

"A copy of the proposed Treasury statement is attached. Before it can be sent, however, it is necessary to ascertain whether the Board is prepared to send a member of its staff on a mission of this character to Honduras. The period involved is expected to be about five weeks; and each agency would be expected to pay the salaries, subsistence, and traveling expenses of its own men."

Unanimous approval was given by the members of the Board present to Mr. Triffin making the trip as a member of the mission, with the understanding that he would be reimbursed for expenses incurred by him on the trip in accordance with the current travel regulations of the Board.

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In taking this action, the Board authorized Mr. Leonard, as Director of the Division of Personnel Administration, to address a letter to Mr. Triffin's draft board requesting that he be permitted to leave the country as a member of the mission.

Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of May 10, the Board of Governors approves the appointment of Mr. R. B. Hays as First Vice President of the Federal Reserve Bank of Cleveland, effective July 1, 1943, for the unexpired portion of the five-year term ending February 28, 1946. The Board understands that Mr. Zurlinden, who became a retired member of the Retirement System on January 1, 1943, but has continued to serve as First Vice President, has expressed his intention to retire from active service with the Bank on June 30, 1943.

"The other promotions referred to in your letter of May 10 have been noted and it is understood that the recommendations with respect to salaries will be submitted shortly."

Approved unanimously.

Letter to the board of directors of "The Farmers Bank of Springville, Erie County, N. Y.", Springville, New York, stating that, subject to conditions of membership numbered 1 to 6 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 New York:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$5,764, as shown in the report of examination of such bank as of April 3, 1943, made by an examiner for the Federal Reserve Bank of New York."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers Bank of Springville, Erie County, N. Y.', Springville, New York, 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 New York for his information.

"Standard condition of membership numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York."

Letter to the "Austin State Bank", Chicago, Illinois, 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.

Letter to "The First National Bank of Mount Vernon", Mount Vernon, Washington, reading as follows:

"This refers to the resolution adopted on March 23, 1943, 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.

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"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, 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 Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Atlanta, made as of March 19, 1943, by the Board's examiners, a copy of the report of examinations was left for your information and that of the directors. A copy was also furnished President McLarin.

"The Board will appreciate advice that the report has been considered by the board of directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

Letter to the Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, and Richmond, reading as follows:

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"In accordance with a request received from Mr. B. B. Griffith, Assistant to Director of Finance, United States Maritime Commission, it will be appreciated if in the future progress reports and periodic financial statements of borrowers having Regulation V loans guaranteed by the Maritime Commission are forwarded to Washington through the Commission's Regional Office at Philadelphia. A copy of each such statement should be mailed to the Board for its records."

Approved unanimously, together with a similar letter to the Presidents of the Federal Reserve Banks of Atlanta, Kansas City, and Dallas and to Mr. Hale, Vice President and Secretary of the Federal Reserve Bank of San Francisco, except that the Atlanta, Kansas City, and Dallas Banks were requested to forward the reports and statements through the Maritime Commission's Regional Office at New Orleans and the San Francisco Bank through the Office at Oakland.

Letters to Lieutenant Colonel Paul Cleveland, Chief of the Loan Section, Special Financial Services Branch, Fiscal Division, War Department; Mr. Sidney A. Mitchell, Chief of Finance Section of the Office of Procurement and Material, Navy Department; and Lieutenant B. B. Griffith, Assistant to Director of Finance, United States Maritime Commission, reading as follows:

"There is enclosed a copy of a letter received by the Board from Mr. R. B. Hays, Vice President and Secretary of the Federal Reserve Bank of Cleveland, together with a copy of a letter received by the Federal Reserve Bank from Mr. Francis H. Beam, Vice President of The National City Bank of Cleveland, regarding the interpretation of the provisions of the guarantee agreement forms of May 14, 1942, and April 6, 1943, with respect to adjustments based on the cancellation of war production contracts.

"We will be glad to have any comments that you may care to make with respect to the above question and also with respect to the point mentioned in the last paragraph of Mr. Hays' letter regarding the practice of contracting officers in connection with contract cancellations."

Approved unanimously.



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Letter to Honorable James M. Mead, Chairman of the Senate Subcommittee on Small Business Loans, prepared in accordance with the action taken at the meeting of the Board on May 12, 1943, for Chairman Eccles' signature, and reading as follows:

"I have brought to the attention of the other members of the Board, and we have considered carefully in accordance with your request, the outline enclosed with your letter of April 19 of suggested legislation to provide intermediate and long term credit for American small business enterprises. It is noted that the outline was prepared by Mr. William Sheperdson, Chief, Small Business Unit of the Department of Commerce, on the basis of ideas originally agreed upon by the Advisory Drafting Committee of your subcommittee.

"The proposal does not state specifically the particular objectives which your committee has in view and it is difficult to express an opinion or make suggestions without having these objectives defined. The basis and the extent of the assistance that should be provided needs to be considered. The first question to be determined by your committee is whether the purpose is simply to furnish more credit or credit on longer terms to small enterprises that are now being financed by private institutions; or whether it is to assist enterprises, injured or shut-down by the war and unable to obtain adequate credit otherwise, to resume civilian production or to reconvert from war to civilian production; or whether it is to assist newly organized small enterprises to get started in civilian production following the war. We have no doubt that additional aid for small business will be required at or before the end of the war, but it seems to us essential that the special need to be served and the extent of the financial assistance considered desirable be defined from the standpoint of legislative policy before the mechanism can be devised which will be most appropriate for the purpose in view.

"Aside from this basic question of policy we agree with the view that it would be preferable if an existing authority were empowered to provide the mechanism for such further aid for small business enterprises as may be desired but we feel that the proposal attached to your letter is unnecessarily complicated.

"It appears to contemplate the establishment of a finance corporation, and in addition the creation of a loan insurance fund, together with 'management advisory service divisions' and

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"councils". The proposed finance corporation would be owned by the private banking system of the country through compulsory stock subscriptions. It is certain that enforced subscription would meet with objections from practically all bankers and even without such objection it is felt that the fund should be obtained in some other way. In that case the provision that three of the board of nine directors should be elected and be representative of the member banks would be a violation of the principle that governmental bodies should be independent of control by private interests.

"The provisions for the establishment of a separate loan insurance fund and for its operation are complicated and superfluous. There would seem to be no necessity for having a contract of indemnity between the lending agency and a separate insurance fund as proposed. There is no reason why the insurance feature should not be handled by the lending agency. The contract of insurance or guaranty could follow the general pattern of a guaranty under Regulation V, namely a contract running from the lending agency to the commercial bank or other financing institution.

"There are other provisions of less importance in the proposal with which we do not agree, but for the most part they deal with details and refinements which might well be eliminated by a provision that the agency charged with responsibility for the administration of the proposal should have the power to make regulations governing its operations. This method, among other things, would make unnecessary the creation of the proposed management advisory service divisions and councils and the attendant complications of such an organization.

"If, as we have understood, it is the thought of the committee that it is desirable to proceed at the time on the basis of the establishment of a corporation to be set up within the Federal Reserve System, the Bill S. 939 introduced by you on February 22, 1941, would provide the means for accomplishing your purpose in a much simpler way than the proposal attached to your letter."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

*W. S. C. C. C.*

Chairman.

*Robert Morrie*

Secretary.