

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 25, 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

Chairman Eccles read for the record the following letter which he had just received from Admiral Leahy:

"The Combined Chiefs of Staff
 Washington

23 May 1943.

"Mr. Marriner S. Eccles,
 Chairman, Board of Governors,
 Federal Reserve Building,
 Washington, D. C.

"Dear Mr. Eccles:

"I have been asked by the Combined United States and British Chiefs of Staff to express their gratitude to you and the Board of Governors of the Federal Reserve Board for so graciously affording them the use of the facilities of the Federal Reserve Building during the period of their recent conferences.

"Your generosity has made possible a most desirable atmosphere for the deliberations of the Combined Chiefs of Staff which, it is hoped, will be reflected in the wisdom of their decisions.

"With renewed thanks, I am,

"Sincerely yours,

For the Combined Chiefs of Staff:

(Signed) William D. Leahy

William D. Leahy,

Admiral, U.S. Navy,

Chief of Staff to the

Commander in Chief of the Army and Navy."

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Mr. McKee referred to the brief which had been presented on behalf of Transamerica Corporation to the Secretary of the Treasury and the Comptroller of the Currency and said that Senator Downey had asked that the brief be returned so that he could present it to the committee appointed pursuant to House Resolution 102, which was agreed to on February 11, 1943, that apparently the Banking and Currency Committees had decided that they would not hold hearings on bank holding company matters except on the basis of legislation that might be proposed, and that evidently the matter had developed to a point where Senator Downey intended to place the matter before the special House committee. Mr. McKee added that he was bringing this matter to the attention of the members of the Board so that they might know what the developments were.

In response to an inquiry from Mr. Draper as to what, if anything, the Board should do in the circumstances, Mr. McKee replied that he felt that there should be some bank holding company legislation. The other members of the Board were in agreement with Mr. McKee's opinion.

Mr. McKee raised the question whether Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, and Mr. Delano, Comptroller of the Currency, together with himself, should discuss with Congressman Smith, chairman of the special committee, the desirability of seeing that the matter was left with the Banking and Currency Committees of the Senate and House for disposition.

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There was unanimous agreement on the part of the members of the Board that it would be desirable to work the matter out in this manner if that could be done.

There was then presented a letter to Mr. Coffey, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"At the time the Board wired the Federal Reserve Banks on December 8, 1942, authorizing them to utilize the existing stock of Federal Reserve Bank notes, there were on hand in Washington and in the vaults of the Federal Reserve Agents approximately \$660,000,000 of these notes. Since that time all Federal Reserve Bank notes held in Washington, other than for the account of the Federal Reserve Agent at Minneapolis, have been shipped to the Federal Reserve Agents and all but \$58,130,000 of such notes have been issued by the Federal Reserve Agents to the Federal Reserve Banks. Of this \$58,130,000, \$41,130,000 represents notes of the Federal Reserve Bank of Minneapolis. The difference, or \$17,000,000, represents notes in the \$50 and \$100 denominations of two Banks which have already issued by far the larger part of the stock of such notes they had on hand on December 8, 1942.

"From existing figures it would appear that all Federal Reserve Agents, except the Federal Reserve Agent at Minneapolis, will within a comparatively short time have issued their entire stock of Federal Reserve Bank notes to the Federal Reserve Banks.

"Governor Szymczak in talking with you about this matter over the telephone reviewed briefly the position the Board has taken with respect to the issuance of these notes. He pointed out, as stated by the Board in its press statement issued on December 12, 1942, that the sole purpose of placing these notes in circulation at this time is to save the expense, approximately \$300,000, of printing new currency. It was brought out in the Board's press statement that 'In terms of labor and materials, there would be a saving of 225,000 man hours in printing alone, and of 45 tons of paper in addition to a substantial saving of nylon and ink.'

"In the circumstances, it will be appreciated if you will bring this matter to the attention of your Directors at the earliest opportunity and advise the Board by wire whether they are now willing to authorize your Bank to pay out its existing stock, \$41,130,000, of these notes. Should

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"your Directors decide not to authorize the use of these notes for circulation purposes, the Board would be interested in knowing the reasons for their unwillingness to do so."

Approved unanimously.

Reference was also made to the following letter prepared for the signature of Chairman Eccles to Mr. Morton Bodfish, Executive Vice President of the United States Savings and Loan League:

"This will reply to your letter of April 23 in which you advise that your organization has in mind asking Congress to amend the Federal Home Loan Bank Act by adding a new subsection to Section 11 of that Act, reading substantially as follows:

'() Every Federal Reserve Bank shall have power to buy and sell the obligations of the Federal Home Loan Banks having maturities from date of purchase of not exceeding six months upon the same basis that such banks are now authorized by law to buy and sell the obligations of Federal Farm Mortgage Corporation, the Federal Land Banks and Home Owners' Loan Corporation.'

"It is my opinion that the addition of obligations of the Federal Home Loan Banks to those which the System is authorized to buy and sell is undesirable.

"The primary purpose of the open-market operations of the Federal Reserve System is to increase or decrease the reserves of member banks and thereby to expand or contract the available base for member bank deposits, which are the principal element in the nation's supply of money. Since open-market operations of necessity take the form of purchases and sales of some specific type or types of securities, there are inevitably secondary effects on the market position of the securities involved. Provisions of the law, therefore, should limit open-market purchases and sales to a class of securities whose prices and yields are related as closely as possible to a pure interest rate and as little as possible to factors of risk and investment quality. If the System is authorized to use in its open-market operations various types of securities which may at times be in need of support, this will inevitably result in pressure on emergency occasions to conduct operations for the sake of the market standing of these securities, which may conflict with the main objective of open-market operations.

"In recent years open-market operations of the System in securities have been conducted entirely by the purchase and

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"sale of direct obligations of the United States. In addition to fulfilling the specifications stated above, these obligations have the additional advantage of being available at all times in adequate quantities and with varying maturities.

"While the law now authorizes the System to purchase certain securities other than direct obligations of the United States, these include fully guaranteed obligations and obligations with maturities not exceeding six months from date of purchase issued by States municipalities, etc., in anticipation of revenues, by Federal Land Banks and by Federal Intermediate Credit Banks. In practice the System has had little occasion to use its authority to purchase such securities. With the very large supply of Government securities of various maturities constantly available on the market, there appears to be little likelihood that the System will find it desirable hereafter to purchase obligations either of the Federal Land Banks or the Federal Intermediate Credit Banks. Therefore, it would be clearly not in the public interest to add to the classes of securities now made eligible other classes of securities, such as obligations of the Home Loan Banks which are issued for the purpose of providing long-time capital funds.

"I might also suggest that the present is not a propitious time to undertake legislation of a controversial nature, not related to the war effort."

Approved unanimously.

Thereupon the meeting recessed and reconvened at 2:40 p.m. with the same attendance as at the morning session except that Messrs. Bethea and Carpenter, Assistant Secretaries, Mr. Clayton, Assistant to the Chairman, Mr. Dreibelbis, General Attorney, Mr. Leonard, Director of the Division of Personnel Administration, and Mr. Wyatt, General Counsel, were also present.

In accordance with the procedure agreed upon at the meeting of the Board on May 12, 1943, routine requests received under dates of May 5 and 17, 1943, from the Chairman of the Senate Committee on Banking and Currency for reports on bills S. 1073, to aid in the stabilization program and the war effort by paid newspaper advertising in connection with

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the sale of United States bonds, and S. 1108, to continue the Commodity Credit Corporation as an agency of the United States, had been submitted to Mr. Ransom and he had recommended that no reports be made at this time.

Mr. Ransom's recommendation was approved unanimously.

At this point Messrs. Goldenweiser and Thomas, Director and Assistant Director, respectively, of the Division of Research and Statistics, joined the meeting.

Reference was made to a memorandum dated May 18, 1943, from Mr. Goldenweiser, which had been circulated among the members of the Board before this meeting and which read as follows:

"Results obtained from the survey of ownership of deposits made as of the end of March have not yet been fully analyzed, but comments received from the Federal Reserve Banks indicate that the results obtained are significant and useful; that a regular reporting service of some sort is desirable in view of the importance of these data; that enough bankers will probably be willing to make such reports to provide useful results; and that many bankers are interested in the survey and would like even more detailed information than we obtained this time.

"The Board of Trustees of the Banking Research Fund of the Association of Reserve City Bankers recently passed a resolution endorsing the Federal Reserve survey of the ownership of bank deposits and recommending that the Association of Reserve City Bankers consider how the survey might be modified and expanded. A subcommittee of bank economists was appointed to work with the Federal Reserve System on this investigation. They are Walter Lichtenstein, Chairman, J. H. Riddle, and Marcus Nadler. The National Bureau of Economic Research, which has some research projects conducted under the sponsorship of the Association of Reserve City Bankers, has also appointed a subcommittee to consider the matter. This committee is made up of W. J. Carson of the NBER, Chairman, Donald Thompson, Federal Deposit Insurance Corporation, and Donald Woodward, The Mutual Life Insurance Company of New York.

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"It is our intention, if agreeable to the Board, to proceed with plans for obtaining regular reports on the ownership of deposits, working with the Reserve Banks, the subcommittee of the Association of Reserve City Bankers and that of the National Bureau of Economic Research, and with other interested persons and agencies. I suggest that the System's subcommittee, which worked out plans for the previous survey, be authorized to represent the System in these discussions. This subcommittee consists of Messrs. Thomas, Roelse, Sienkiewicz, and Langum."

Mr. McKee questioned whether the Board should continue to obtain the information referred to in the memorandum, and in response to his inquiries there was a discussion of how the survey was originated, the extent of the information to be collected, and the use that it was expected would be made of the data.

During the discussion Mr. Thurston, Special Assistant to the Chairman, joined the meeting.

Mr. McKee also inquired whether the information would be released to the public, and it was stated that the Board would be under obligation to make the data available to the Association of Reserve City Bankers and that some of the Federal Reserve Banks had given the information already obtained to the reporting banks in their respective districts. There was unanimous agreement that, if it should appear from the data that large amounts of deposits were held in a few accounts, the manner in which the information was released should be watched carefully.

At the conclusion of the discussion, Mr. McKee stated that he would be willing to approve the collection of the information with the

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understanding that he would be given an opportunity to review the resulting data before any of them were given out.

Thereupon, unanimous approval was given to the recommendation contained in Mr. Goldenweiser's memorandum.

Thereupon Messrs. Goldenweiser and Thomas withdrew from the meeting.

Consideration was then given to a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, in the following form:

"The Board of Governors approves the payment of salaries to the officers of the Federal Reserve Bank of Richmond for the year beginning June 1, 1943 at the following rates, which, with one exception, are the rates fixed by the Directors of your Bank as reported in your letter of May 11.

"The present salary of Mr. Cupit, as Cashier of the Baltimore Branch, is the maximum which has been paid for that position for many years and it is believed that under the existing salary stabilization regulations, an increase in Mr. Cupit's salary is not permissible at this time. Accordingly, the salary approved for Mr. Cupit is the same as that which he has been receiving.

"The salaries as approved are as follows:

Head Office

Hugh Leach, President	\$21,000
John S. Walden, Jr., First Vice President	15,000
J. G. Fry, Vice President	12,000
Roger W. Mercer, Vice President	9,000
George H. Keesee, Cashier and Secretary	9,000
Edward Waller, Jr., Assistant Cashier	7,500
W. W. Dillard, Assistant Cashier	6,500
Albert S. Johnstone, Assistant Cashier	6,300
Claude L. Guthrie, Assistant Cashier	6,500
Clair B. Strathy, Assistant Cashier	6,000
R. S. Brock, Jr., Auditor	5,800
Maxwell G. Wallace, Counsel	8,000

Baltimore Branch

W. R. Milford, Managing Director	12,000
John R. Cupit, Cashier	6,500
John A. Johnston, Assistant Cashier	5,400
Donald F. Hagner, Assistant Cashier	5,400

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"Charlotte Branch

W. T. Clements, Managing Director	\$8,000
Louis D. Brooks, Assistant Cashier	4,800
Robert L. Honeycutt, Assistant Cashier	4,200"

Approved unanimously.

There was also presented a draft of letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, with respect to salaries proposed for the officers of the Bank for the year beginning June 1, 1943. The draft of letter stated that the increase proposed for Mr. Bailey, the General Auditor of the Bank, could not be approved for the reason that it was already at the maximum that had been paid for the position and under the existing salary stabilization regulations could not be increased beyond that figure. There was general agreement on the part of the members of the Board that in the absence of the salary stabilization regulations the approval of the proposed increase for Mr. Bailey would be warranted, and the suggestion was made and agreed to that Mr. Szymczak should look into the possibility of some such plan as, for example, that of designating the auditors of the Banks to serve as assistant Federal Reserve agents with the thought that the change of status and the additional responsibilities that might be placed on them would justify a higher salary range for the combined position of assistant Federal Reserve agent and auditor.

Thereupon, the draft of letter to Mr. Nardin was approved in the following form:

"The Board of Governors approves the payment of salaries to the officers of the Federal Reserve Bank of St. Louis for the year beginning June 1, 1943 at the following

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"rates, which with two exceptions, are the rates fixed by the Board of Directors as reported in your letter of May 14.

"The present salary of Mr. Martin, Assistant Cashier of the Memphis Branch, is the maximum which has been paid for that position for many years and it is believed that under the existing salary stabilization regulations, an increase in his salary is not permissible at this time. Accordingly, his salary for the coming year is approved in the same amount as that received during the past year.

"The situation of Mr. L. H. Bailey, General Auditor, in this respect is similar to that of Mr. Martin. However, the Board is giving further consideration to the question of the salaries of the auditors as related to their responsibilities, the general salary patterns of the respective Federal Reserve Banks, and the salary stabilization controls. Accordingly, the Board defers action on the proposed increase in Mr. Bailey's salary and approves his salary for the coming year at the same amount as that received during the past year.

"The salaries as approved for the year beginning June 1, 1943, are as follows:

Head Office

Chester C. Davis, President	\$15,000*
F. Guy Hitt, First Vice President	18,000
O. M. Attebery, Vice President	15,000
C. M. Stewart, Vice President and Secretary	10,000
Henry H. Edmiston, Vice President	7,500
S. F. Gilmore, Assistant Vice President	7,500
F. N. Hall, Assistant Vice President	6,500
G. O. Hollocher, Assistant Vice President	5,300
H. H. Weigel, Assistant Vice President	4,200
Lewis H. Carstarphen, General Counsel	7,500
L. H. Bailey, General Auditor	6,600

*The difference between the salary Mr. Davis has been receiving as President of the Federal Reserve Bank and the salary received while on leave of absence as War Food Administrator.

Little Rock Branch

A. F. Bailey, Managing Director	\$ 9,000
Clifford Wood, Cashier	4,800
Clay Childers, Assistant Cashier	3,900

Louisville Branch

C. A. Schacht, Managing Director	9,000
Fred Burton, Cashier	4,800
S. B. Jenks, Assistant Cashier	4,000

Memphis Branch

W. H. Glasgow, Managing Director	10,000
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"Memphis Branch (Continued)

S. K. Belcher, Cashier

\$5,300

C. E. Martin, Assistant Cashier

4,800"

At this point Messrs. Thurston, Dreibelbis, Leonard, and Wyatt 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 24, 1943, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on May 24, 1943, were approved unanimously.

Memorandum dated May 22, 1943, from Mr. Smead, Chief of the Division of Bank Operations, recommending that Miss Doris A. Garrison be appointed as a clerk in that Division, with basic salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination, with the understanding that if anything derogatory should develop in the investigation of her references her services may be terminated immediately.

Approved unanimously.

Memorandum dated May 21, 1943, from Mr. Morrill, recommending that Miss Anna Mae Myers be appointed as a page in the Secretary's Office on a temporary basis for an indefinite period, with basic salary at the rate of \$1,260 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

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Letter to Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, reading as follows:

"In accordance with your request the Board of Governors approves, effective May 1, 1943, the changes in the Personnel Classification Plan of the Federal Reserve Bank of New York and the Buffalo Branch, as submitted with your letter of May 17, 1943."

Approved unanimously.

Letter to Mr. Clark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of May 1, 1943, and its enclosures, relating to a possible change in the holding company affiliate status of First National Holding Corporation, Miami, Florida, wholly owned affiliate of The First National Bank of Miami, Florida, which formerly operated under the title 'The First National Building Corporation'.

"On November 15, 1935, The First National Building Corporation and The First National Bank of Miami were determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended, and therefore that they were not holding company affiliates, for any purposes other than those of section 23A of the Federal Reserve Act. This determination was based, among other things, on the fact that The First National Building Corporation was organized for the purpose of holding title to, and managing and operating, the bank building occupied by The First National Bank; and the further fact that the aggregate carrying value of bank stocks owned constituted a relatively minor portion of the total assets of the corporation. It was stated, however, that if either The First National Bank or the building corporation acquired control over any other bank or if the facts should at any time otherwise differ from those upon which its determination was based, which would indicate that either or both of the corporations might be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, the matter should again be submitted to the Board for its determination. Accordingly, you have brought the matter to the Board's attention.

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"It is understood that the First National Holding Corporation is the same corporate entity as The First National Building Corporation; that the First National Bank building which was owned by The First National Building Corporation at the time of the Board's original determination has been transferred to the bank and is now carried on its books; that First National Holding Corporation still owns controlling stock of The Coral Gables First National Bank, Coral Gables, Florida, and the Little River Bank and Trust Company, Miami, Florida; that it has also acquired a minority interest in the First Trust Company, Miami, Florida, which is owned and controlled by the same shareholders as The First National Bank of Miami; and that the carrying value of bank stocks owned now represents over ninety-seven per cent of the total assets of First National Holding Corporation. In this connection, the latest available report of examination of The First National Bank of Miami, made as of March 12, 1943, contains the following comment concerning First National Holding Corporation, 'The corporation is now functioning principally as a holding company for stocks of affiliated banks'.

"In view of all the presently existing facts of the case, the Board rescinds its determination of November 15, 1935, and now determines that First National Holding Corporation is a holding company affiliate for all purposes within the meaning of section 2(c) of the Banking Act of 1933, as amended. The First National Bank of Miami, as owner of all of the outstanding capital stock of the First National Holding Corporation, is also a holding company affiliate of the group and similar action has been taken by the Board in regard to that institution. Accordingly, if these corporations desire to vote the shares of stock which they own and control of The Coral Gables First National Bank, Coral Gables, Florida, it will be necessary for them to apply for and obtain voting permits from the Board. Please advise both corporations of the Board's action in the matter."

Approved unanimously.

Memorandum dated May 21, 1943, from Mr. Morrill, recommending that the Board approve an increase of \$3,000 in the Service Functions Budget of the Secretary's Office for the year 1943 to take care of possible losses in the operation of the cafeteria.

Approved unanimously.

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Thereupon the meeting adjourned.

Walter H. Mowbray
Secretary

Approved:

W. H. Mowbray
Chairman.