

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 3, 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. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Wingfield, Assistant General Attorney
Mr. Pollard, Assistant Chief of the Division of Examinations
Mr. Wyatt, General Counsel
Mr. Roland Robinson, Senior Economist in the Division of Research and Statistics

Mr. McKee stated that following the meeting of the Board on July 27, 1943, at which consideration was given to the desirability of action by the Board and the Federal Deposit Insurance Corporation to reduce the maximum rate of interest that might be paid by member banks and insured nonmember banks on time and savings deposits, he and Messrs. Smead and Vest conferred with Roy M. North, Deputy Third Assistant Postmaster General, Vincent M. Miles, Solicitor of the Post Office Department, and two other representatives of the Department, at which time the suggestion was made by Mr. North that, if action

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were taken by the Board, the reduction be to 2 per cent which would have no effect on the rate of 2 per cent paid generally by the Post Office Department on postal savings deposits. Mr. McKee also said that Mr. Miles stated that, if the maximum rate were reduced to 1-1/2 per cent, the rate paid on postal savings would also have to be reduced, which would necessitate notification to some three million postal savings depositors, involving approximately \$1,500,000,000 of deposits, as well as notification to the banks in which postal savings had been redeposited and which because of the action of the Board and the Federal Deposit Insurance Corporation could no longer pay the rate fixed by statute of not less than 2-1/4 per cent on such redeposited funds.

In connection with Mr. McKee's statement, it was pointed out that, although the law provides, and the Attorney General has held, that postal savings funds may be redeposited in member banks at a rate prescribed by the Board of Governors even though it is less than the statutory minimum of 2-1/4 per cent, it was open to serious question whether such postal savings funds could be deposited in nonmember insured banks at less than the statutory minimum of 2-1/4 per cent, so that, if uniform action were taken by the Board and the Federal Deposit Insurance Corporation to reduce the maximum rate to 1-1/2 per cent, it would result in nonmember insured banks being forced to surrender these

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deposits. Mr. McKee stated that he had discussed this point with Under Secretary of the Treasury Bell, that a substantial number of member and insured nonmember banks held approximately \$12,000,000 of such deposits, and that Mr. Bell stated that, if action were taken by the Board and the Federal Deposit Insurance Corporation, he would arrange to invest these funds as they were surrendered in Government securities. Mr. McKee added that, in all the circumstances, he had come to the conclusion that, in order to avoid any possibility of misunderstanding or confusion, which might react unfavorably on the third war loan drive which would begin in September, action by the Board and the Federal Deposit Insurance Corporation should be deferred until after the third war loan drive, and that he would so recommend.

The matter was discussed in the light of the replies received from the Presidents of the Federal Reserve Banks to the Board's telegram of July 27, 1943, and of the question whether (1) the relationship of the maximum rate to currently effective rates and (2) the Board's responsibility under the law required that action be taken at this time.

At the request of Chairman Eccles, Mr. Wyatt reviewed the history and the reasons for the provisions of law authorizing the Board to limit the maximum rate of interest that might be paid by member banks on time and savings deposits and the reasons stated by the Board in connection with previous actions changing the maximum

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rates of interest on time and savings deposits prescribed in Regulation Q.

During the discussion, the draft of statement prepared by Mr. Goldenweiser in response to the request made at the meeting of the Board on July 27 of reasons which might be given by the Board for action at this time was read, and it was stated that it appeared from information available to the Board that some 6,800 of the smaller banks in the United States were paying more than 1-1/2 per cent interest on time and savings deposits, 4,125 paying from 1-1/2 to 2 per cent, 2,261 paying from 2 to 2-1/2 per cent, and 563 paying 2-1/2 per cent. As to the amount of deposits involved, it was roughly estimated that these rates were being paid by the 6,800 banks on from \$1,000,000,000 to \$2,000,000,000 of deposits.

At the conclusion of the discussion, unanimous approval was given to a motion by Mr. McKee that the matter be tabled, with the understanding that it could be called up for consideration by any member of the Board at any time.

At this point Mr. Robinson left the meeting.

Mr. McKee then stated that the examination by examiners for the Board and the Federal Reserve Bank of San Francisco of Transamerica Corporation and its affiliated organizations was undertaken beginning Monday, August 2, 1943, and that Mr. Dreibelbis had suggested that it would be helpful if certain records of the Reconstruction Finance Corporation with respect to Transamerica Corporation and the Pacific Coast

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Mortgage Company could be made available to representatives of the Board. He said that he had discussed the matter informally with the Secretary of Commerce, who had indicated a willingness to make the records available but had requested a letter setting forth what the Board desired.

There was a discussion of the question whether the letter of request should include a request for permission to review the files of the Reconstruction Finance Corporation Agency in San Francisco as well as the files of the San Francisco Bank as custodian for the Reconstruction Finance Corporation. Mr. Wingfield stated that M. J. McGrath, Chief of the Examining Division of the Reconstruction Finance Corporation, had said that it was felt that all of this information was available at the Washington office of the Reconstruction Finance Corporation and that, if not, arrangements could be made to obtain it from San Francisco.

Thereupon, upon motion by Mr. McKee, the following letter to Honorable Jesse H. Jones, Secretary of Commerce, was approved unanimously:

"Under the laws relating to holding company affiliates of member banks an examination is being made of Transamerica Corporation. In connection with this examination a question arises as to whether or not Pacific Coast Mortgage Company is affiliated with Transamerica Corporation. The Board understands that in 1932 a loan was made by the RFC to Bankitaly Mortgage Company which was later known as the Pacific Coast Mortgage Company for

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"the purpose of retiring a loan previously made to Bank of America National Trust and Savings Association. It occurs to us, therefore, that your records may contain information indicating an affiliation between Pacific Coast Mortgage Company and Transamerica Corporation.

"It will be appreciated if representatives of the Board may review the files of RFC relating to its loan transactions with the Bank of America, Bankitaly Mortgage Company and Pacific Coast Mortgage Company to determine whether they contain any information which may be of assistance to the Board in the question it is considering.

"Any information which may be obtained by the Board from these files will be maintained in confidence by the Board and will not be released without your consent."

Mr. McKee also stated that Mr. Dreibelbis had found that it would be necessary to have additional legal assistance in connection with the work on the Transamerica Corporation case and that he had conferred with Neth Leachman of Dallas, Texas, who had agreed to go to San Francisco in about 10 days and who had made the services of a partner in the firm available to Mr. Dreibelbis in the meantime.

Mr. Ransom moved that Messrs. Eccles and McKee, or either of them in the absence of the other, be authorized to arrange for such legal and other assistance as might be necessary in connection with the Transamerica Corporation case, with the understanding that all such arrangements would be on a basis which would provide that such compensation and expenses as might be claimed would be subject to approval by the Board, whose decision would be final, and that they would report such arrangements currently to the Board for appropriate entry in the minutes.

This motion was put by the chair and carried unanimously.

At this point Messrs. Thurston, Goldenweiser, Leonard, Vest,

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Wingfield, Pollard, 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 August 2, 1943, were approved unanimously.

Bond in the amount of \$10,000, executed under date of July 31, 1943, by Carl Ritzel as Federal Reserve Agent's Representative at the Memphis Branch of the Federal Reserve Bank of St. Louis.

Approved unanimously.

Memorandum dated July 31, 1943, from Mr. Carpenter, recommending that the temporary appointments of Misses Marjorie V. Berry and Evelyn L. Underwood as junior file clerks in the Secretary's Office be made permanent, with no change in their present basic salaries at the rate of \$1,440 per annum each, effective immediately.

Approved unanimously.

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"The Board approves the change in the personnel classification plan for the position of Elevator Starter as evidenced by the revised page 43 submitted with your letter of July 30."

Approved unanimously.

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Letter to the board of directors of the "Dime Trust and Savings Bank", Fort Wayne, Indiana, stating that, subject to conditions of membership numbered 1 to 6 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 Chicago.

The letter also contained the following special comment:

"It has been noted that the bank has outstanding common capital stock of \$200,000 which is in excess of the figure at which the stock is shown on the books of the bank. In this connection the Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock to be shown at its par value. Such adjustments may be effected through conservation of earnings of the bank, through reduction of its outstanding common capital stock, if and when such a reduction may be accomplished under the applicable provisions of State law, or through such other means as may be within the power of the bank."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Dime Trust and Savings Bank', Fort Wayne, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

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"It is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank. Therefore, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice."

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.