

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 20, 1943, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice 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 August 19, 1943, were approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. Frazer, Secretary pro tem of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on August 17, by

8/20/43

-2-

the Federal Reserve Bank of Atlanta on August 18, by the Federal Reserve Banks of New York, Philadelphia, Chicago, Dallas, and San Francisco on August 19, 1943, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated August 18, 1943, from Mr. Paulger, Chief of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties, Elmer W. Lyster be appointed as an Assistant Federal Reserve Examiner on a temporary basis for an indefinite period, with basic salary at the rate of \$2,400 per annum, and with official headquarters at Philadelphia, Pennsylvania.

By unanimous vote, Mr. Elmer W. Lyster was appointed on a temporary basis for an indefinite period as an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Philadelphia, Pennsylvania, and with basic salary at the rate of \$2,400 per annum, all effective as of the date upon which he enters upon the performance of his duties.

8/20/43

-3-

Memoranda dated August 16, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective September 1, 1943:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Wilellyn Morelle	Economic Assistant	\$1,800	\$2,000
Kathryn S. Faulkner	Clerk	1,620	1,740

Approved unanimously.

Memorandum of this date from Mr. Morrill, submitting the resignation of Mrs. Betty Lou Buchanan as a junior file clerk in the Secretary's Office, to become effective as of the close of business on August 26, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. A. D. Burford, Deputy Commissioner of the Bureau of Internal Revenue, reading as follows:

"The Board of Governors is prepared to approve, under the certification procedure, an increase from \$10,000 to \$11,000 in the annual salary of Mr. Chalfont, Manager of the Detroit Branch of the Federal Reserve Bank of Chicago, provided approval of the increase would be consistent with the policy under the salary stabilization regulations. Because of some rather unique features in this case, Mr. Needham of your office with whom this matter was discussed informally, suggested that your views be obtained before the Board acts formally upon the request received from the Federal Reserve Bank of Chicago.

"Briefly, the situation is this. For two years prior to January 1, 1943, Mr. Chalfont was Managing Director

8/20/43

-4-

"of the Detroit Branch, at a salary of \$10,000. The first of this year, in connection with a program for expanding the functions of the Branch, a vice president of the Federal Reserve Bank of Chicago with a salary of \$15,000, was appointed to devote his full time to the Detroit area and to be in charge of the Detroit Branch, the position of Managing Director was discontinued, and Mr. Chalfont was made Manager of the Branch, a new position, at the salary of \$10,000. As Managing Director, Mr. Chalfont was the officer in charge of the Branch. With the appointment of the Vice President, Mr. Chalfont is now second in charge of the greatly expanded Branch but continues to be the chief operating officer as well as the officer in charge of loans and credits. In this connection, it might be mentioned that as chief credit officer of the bank, Mr. Chalfont has been responsible for the processing, under Regulation V, of over \$300,000,000 in loans to industry for war production purposes since the procedure was established under the Board's regulation in April 1942. The management of the Reserve Bank feels that with the expansion of the branch activities, Mr. Chalfont's responsibilities as Manager are greater than they had been as Managing Director when the Branch was smaller.

"The circumstances which led to this change in organization are as follows.

"During the past year, in accordance with the Board's policy of increasing the powers and functions of the more important branches, the activities of the Detroit Branch and the responsibilities of its officers and directors have greatly increased. The Detroit Branch led the way in this respect and is now the largest branch in the System. The principal changes in functions were the transfer from the Head Office to the Branch of certain large fiscal agency operations and the delegation to the officers and directors of the Branch of greater responsibilities for the operation of the Branch.

"Indicative of the increase in activities is the growth in the number of employees from 261 in January 1942, to 753 in July 1943, and the fact that the bank has had to purchase the quarters adjoining the branch building and to lease additional space elsewhere.

"The position of Manager of the Branch calls for the combination of a senior operating officer and a

8/20/43

-5-

"senior loaning officer. The Vice President in charge of the Detroit Branch advises that rates paid for comparable services in three large banks in Detroit are \$13,660, \$14,370, and \$14,490. From the point of view of the internal organization, the management of the Reserve Bank feels that the proposed salary of \$11,000 is in keeping with the responsibilities of the position and is consistent with the pattern of the salaries of senior officers at the Head Office.

"Salaries of officers of the Federal Reserve Banks are fixed annually by the Directors subject to approval by the Board of Governors. Before requesting any change in the salary of Mr. Chalfont, the Directors of the Reserve Bank wished to see how the new arrangement was working out and last May voted to increase the salary of Mr. Chalfont from \$10,000 to \$11,000 per annum, effective June 1, 1943. Action by the Board on this matter has been deferred pending clarification of the certification procedure under the 'Hold-the-Line' order and also opportunity to review the situation on the spot. As a result of such review following visits to the Detroit Branch and the Head Office at Chicago, the Board of Governors is prepared to approve the recommendation of the Directors.

"It will be appreciated if you will advise us whether, in view of the circumstances cited, an increase would be considered consistent with the salary stabilization regulations. If you should so desire, Mr. Leonard, Director of the Board's Division of Personnel Administration, will be glad to discuss the matter with you further at your convenience."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"The Board has received several inquiries involving the application of section 7(c) of Regulation W. At the outset, it should be observed that such section provides that a single-payment loan 'may not be renewed or extended except' as provided therein, the provisions of which are exclusive. In addition, arrangements deviating from such

8/20/43

-6-

"provisions, necessarily must be tested under section 11(a). The inquiries in question and the Board's disposition thereof are as follows:

"(1) May a Registrant make a second single-payment loan in approximately the same amount as the first single-payment loan to the same borrower immediately or shortly after the borrower pays in full, at maturity, the first single-payment loan?

"In practice, a case would seldom arise where a borrower would pay a loan in full and, immediately thereafter, as an entirely independent transaction, borrow approximately the same amount from the same Registrant. On the contrary, it would seem more than likely that in such cases the second loan was made pursuant to an agreement or understanding between the parties. Therefore, the Board's view is that, in the usual case, a second loan made immediately or shortly after the payment of a preceding loan must be regarded as a renewal transaction not permitted by the Regulation. What is or is not 'immediately or shortly after', of course, is not susceptible of precise definition, and each case must be decided upon the particular facts involved. However, the fact that a Registrant has frequently made a second loan to a borrower in the circumstances presented by the above inquiry would be strong evidence that such transactions, in effect, were nonconforming renewals calculated to evade the Regulation.

"(2) May a Registrant make a single-payment loan for the purpose of enabling the borrower to meet the first quarterly curtail required under section 7(c)(2) on an outstanding single-payment loan held by the same or some other Registrant?

"Section 7(c)(2) requires an actual reduction in or partial retirement of the borrower's indebtedness; but, it is the Board's view that the arrangement contemplated in the second inquiry, as a matter of substance, does not meet such requirement since it would extend to the borrower additional time for payment merely by changing the manner of recording the indebtedness, the amount of which would remain the same. In view of section 7(f), of course, the foregoing is applicable whether the second single-payment loan would be made by the Registrant who made the first single-payment loan or by another Registrant.

"(3) May a borrower pay the required curtail at the maturity of a single-payment loan but then borrow from the

8/20/43

-7-

"Registrant twice the amount of such curtail and execute a new consolidated single-payment note in a principal sum equal to the first single-payment note plus the amount of the curtail?

"Here again the Board's view is that such an arrangement is not permitted by the Regulation since, in effect, there is not only an extension of time for repayment of the original indebtedness without the required curtail, but the amount of such indebtedness is actually increased.

"In connection with questions of the kind considered herein, it must be noted, of course, that a single-payment loan with an original maturity of less than 90 days may not be renewed or extended under section 7(c)(2) without the required curtail, even if the renewal does not extend the maturity of the indebtedness beyond 90 days from the original making of the loan."

Approved unanimously.

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

"This will acknowledge receipt of your letter of August 12, 1943, with respect to the holding in safekeeping of Treasury bills for others than banks.

"Since this is a matter of policy which affects all Federal Reserve Banks we have referred it to Mr. Day, Chairman of the Conference of Presidents, with the request that he place it on the agenda for consideration at the next Presidents' Conference. If, in the meantime, there are cases in which, in your opinion, you would be justified in holding Treasury bills in safekeeping for others than banks, the Board would interpose no objection to your rendering such service."

Approved unanimously.

Memorandum dated August 19, 1943, from Mr. Wingfield, Assistant General Attorney, recommending that there be published in the

8/20/43

-8-

September issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Amendment to Regulation T

Foreign Funds Control  
Treasury Department Releases  
Report of Property in Foreign  
Countries

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. Hoover  
Secretary.

Approved:

W. S. B. [Signature]  
Chairman.