

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, August 23, 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 20, 1943, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 21, 1943, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated August 20, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mrs. Polly A. Tapp be appointed as a clerk in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,630 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 the board of directors of "The Farmers Bank", Sunbury, Ohio, stating that, subject to conditions of membership numbered 1 to 3 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 Cleveland.

Approved unanimously, for transmission through the Federal Reserve Bank of Cleveland.

Telegram to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Relet August 20. In view of your recommendation and the information submitted, Board approves the establishment and operation of an additional branch in Stockton, California, by American Trust Company, San Francisco, California, in connection with the proposed purchase of assets and assumption of deposit liabilities of The First National Bank of Stockton. It is understood that the establishment of the proposed branch has been approved by the appropriate State authorities and that counsel for the Reserve Bank is satisfied as to the legal aspects involved. It is understood also that within one year the proposed new branch will be consolidated with the existing branch in Stockton."

Approved unanimously.

Letters to "The Wolf Bros. State Bank, Centreville, Michigan", Centreville, Michigan, and the "Peoples Bank and Trust Company", Sunman, Indiana, 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.

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Letter proposed to be sent to Honorable Preston Delano, Comptroller of the Currency, in accordance with the procedure referred to by Mr. Ransom at the meeting of the Board on August 6, 1943:

"This refers to previous correspondence between your Office and the Board, regarding the question whether the absorption of exchange charges by National Bank of Commerce of Lincoln, Lincoln, Nebraska, constitutes a payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act and of the Board's Regulation Q.

"Your Office has submitted detailed reports of your examiner with respect to the relevant facts in connection with this matter. The report of examination as of March 22, 1943, indicates that during the year 1942 the subject bank absorbed exchange charges in the amount of \$18,576.22 out of \$25,187.15 exchange charges paid, and that during 1943 up to the date of the examination such charges were absorbed in the amount of \$4,615.80 out of \$5,506.81 paid. It appears that the subject bank has absorbed exchange charges in hundreds of instances and for numerous depositors, principally with respect to balances maintained by correspondent banks; and that the practice has existed over a period of years. As of April 20, 1938, the report of examination of the bank indicated that during 1937 the bank had absorbed exchange charges in the amount of \$14,953.68 out of \$16,721.85 exchange charges paid; that such charges had been absorbed in amounts ranging from 10 cents to \$160 for more than 250 correspondent banks; and that, in some instances, the exchange absorbed for particular banks amounted to as much as 2 or 3 per cent of their balances with the subject bank.

"The Board's Regulation Q defines interest as 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit.' This definition is intended merely as a declaration of the general law. Accordingly, the questions to be determined in the present case are first, whether the absorption of exchange charges by the subject bank, as above described, constitutes a 'payment', and, second, whether such payment is made as compensation for the use of funds constituting a deposit.

"There can be no doubt that the absorption of each exchange charge by the bank results in a 'payment'. In any such case, the depositor receives a pecuniary benefit which he would not otherwise receive. For example, if a check for \$1,000, drawn on a non-par bank which imposes an exchange charge of 1/10 of 1 per cent for paying checks drawn upon it, is deposited with the subject bank, and is forwarded to the drawee bank for collection,

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"the non-par bank would remit to the subject bank \$999 in payment of the check. If the subject bank then credits its depositor in the amount of \$1,000, thus absorbing the \$1 exchange charge, the depositor clearly receives a 'payment' in an amount equivalent to the exchange charge.

"From the facts in the present case it appears that the 'payments' resulting from absorption of exchange charges are made by the subject bank for the purpose of soliciting and augmenting its demand deposit accounts; in other words, as 'compensation' for the use of funds constituting deposits. No other reason for the absorption of such charges is apparent.

"The bank's correspondent bank deposits, with respect to which exchange is regularly absorbed, have increased from less than \$7 million at the end of 1941 to nearly \$18 million in June 1943. It is significant that during this period the ratio of this bank's correspondent bank deposits to its total demand deposits has been much higher than at Reserve city banks as a whole, both in its district and throughout the country, notwithstanding the fact that Lincoln is located only a short distance from Omaha, which is a much larger financial center.

"That the absorption of exchange charges for depositing banks is in consideration for balances maintained by them is further indicated by the fact that in at least one instance the subject bank has advised a depositing bank that, since the bank's balance in a particular month was negligible, exchange charges could not be absorbed for such bank because the subject bank would 'have no way of making it back'. Moreover, it appears that the subject bank, on occasion, has written to its correspondent banks suggesting that they par items sent to such banks in return for the parring by the subject bank of items received from such banks.

"While the practice exists principally with respect to deposits of correspondent banks, it is understood that, in at least one instance, a corporate account formerly carried with a competing national bank was obtained by the subject bank because of its absorption of exchange charges.

"In the circumstances, it is the opinion of the Board of Governors, on the basis of the facts here presented as outlined above, that the absorption of exchange charges by National Bank of Commerce of Lincoln, Lincoln, Nebraska, constitutes a 'payment of interest' within the meaning of the general law and is therefore a payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act and of the provisions of the Board's Regulation Q."

Approved unanimously, with the understanding that Mr. Morrill would advise Mr.

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Crowley, Chairman of the Federal Deposit Insurance Corporation, by letter that the letter to Mr. Delano was being sent.

Memorandum dated August 20, 1943, from Mr. Paulger, Chief of the Division of Examinations, submitting the travel expense vouchers of Harold T. Krug and Charles Eaton, Assistant Federal Reserve Examiners, covering the period August 1 to 15, 1943, and recommending that, because no other accommodations were procurable at the time and it was necessary for them to accept whatever space was available in order to proceed to their next assignment, the payment of additional expenditures by Messrs. Krug and Eaton covering the difference in the price of standard lower berths and roomettes be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. Steuler  
Chairman.