

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 9, 1943, at 11:00 a.m.

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

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 September 8, 1943, were approved unanimously.

Memorandum dated September 1, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that the temporary appointment of Ben S. Chlepner as an Economic Specialist in that Division be extended for an additional period of not to exceed three months from the date of the expiration of his present appointment at the close of business on September 17, 1943, with no change in his present basic salary at the rate of \$4,200 per annum, which would amount to \$1,050 for the three months' period plus overtime at the usual rate amounting to \$157. The memorandum stated that the extension of Mr. Chlepner's

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leave from the Brookings Institute would be cleared with them formally if and when the Board approved the extension of his appointment, and that it was not expected that further renewals would be requested.

Approved, Mr. McKee voting "no".
In connection with his vote, Mr. Ransom stated that he approved the extension on the condition that the three months proposed would mark the termination of this employment and that if the F. B. I. report which was expected within 30 days should prove unsatisfactory for any reason Mr. Chlepner's employment would terminate immediately. Messrs. Draper and Evans indicated that they were willing to approve the extension for three months only.

Memorandum dated September 8, 1943, from Mr. Nelson, Assistant Secretary, recommending (1) that the temporary appointment of Edward L. Colvin as a cafeteria helper in the Secretary's Office be extended for an additional period of not to exceed 60 days from the date of the expiration of his present appointment at the close of business on September 10, 1943, with an increase in his basic salary from \$1,080 to \$1,200 per annum, effective September 16, 1943, and (2) that the temporary appointment of Raymond J. Tapscott as a cafeteria helper be extended for the period from the date of the expiration of his present appointment at the close of business on September 10, 1943, to the close of business on September 21, 1943, with no change in his present basic salary at the rate of \$1,080 per annum.

Approved unanimously.

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Memorandum dated September 7, 1943, from Mr. Paulger, Chief of the Division of Examinations, submitting the resignation of Miss Helene L. Kearney as secretary to Mr. Pollard, Assistant Chief of the Division, to become effective as of the close of business on October 22, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum dated September 8, 1943, from Mr. Carpenter, submitting the resignation of Miss Thelma E. Ward as a file clerk in the Secretary's Office, to become effective as of the close of September 19, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Telegram to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the application of the "Westport Avenue Bank", Kansas City, Missouri, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York:

- "4. At the time of admission to membership such bank shall have a paid-up and unimpaired capital of not less than \$200,000."

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The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram also contained the following additional comment:

"It has been noted that of the losses estimated in the report of examination for membership, all but \$132.05 are reported to have been charged off and it is said that the remainder will be charged off upon receipt of the report. Therefore, the usual condition of membership regarding the elimination of losses has not been prescribed.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations, the savings accounts referred to on page 16 of the report of examination for membership."

Approved unanimously.

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

"This will acknowledge and thank you for your letter of August 28, 1943, informing us of developments in the Detroit area in connection with the use of the 'defense housing' exemption, provided in section 8(e) of Regulation W, for siding and roofing projects.

"As you know, the Board wrote to the National Housing Administration under date of July 1, 1943, suggesting that consideration be given to the amendment of Administrator's Order No. 60-4A so that the exemption would not be available to siding and roofing projects. The National Housing Administration has made a careful survey of this problem and has consulted with its regional directors. According to our information, the Administration has had no question about the elimination of siding but has been

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"concerned that the elimination of roofing might result in some cases of undue hardship. At one point in the survey a plan was under contemplation which would provide that siding would be eliminated but that roofing, as well as the other activities now covered, would be subject to prior approval by the local offices of the Federal Housing Administration.

"We have just been advised, however, that the Administration has concluded that this rather cumbersome mechanism would not be worth its cost. Consequently it is planning to go forward in accordance with the Board's original suggestion which would mean the complete elimination of siding and roofing. The National Housing Administration believes that the cases of undue hardship in the roofing field would be few and that the establishment of a costly and time-consuming process just to take care of these few cases would not be justified.

"It is the expectation of the National Housing Administration that the change in the Administrator's Order can be made within a short time. You will understand, however, that we cannot predict just how soon the new Order will be effective. The work of drawing up changes and processing them through the agency sometimes takes longer than is anticipated."

Approved unanimously.

Letter to Honorable Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"Mr. Ransom brought to the attention of the Board your letter of August 23 addressed to him and the accompanying copy of your letter of August 20 addressed to Senator Wagner, in which you stated that you sent similar letters to Chairman Steagall and Representative Doughton, in regard to the ruling on the question of absorption of exchange charges contained in the Board's letter of August 23 to Comptroller Delano. Not having had any response from Chairman Wagner, Chairman Steagall or Representative Doughton to the Board's letters of August 6, its letter of August 23 was transmitted on that date to the Comptroller of the Currency.

"In view of all that had preceded the issuance of this ruling, including the various discussions with you

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"and with members of your staff, the Board was surprised at some of the contents of your letter. The Board's letter of August 6 to Senator Wagner, Chairman Steagall and Representative Doughton set forth in some detail the background as well as the immediate origin of the ruling in question. However, the Board feels concerned at the possibility that your letter would lead its recipients to suppose that the Board had ruled gratuitously on this troublesome question, not merely on a specific case, but as a general pronouncement, respecting the absorption of exchange charges. Moreover, your letter would give the impression that the Board's real motive in issuing this ruling was to force nationwide par clearance. For these reasons it has seemed to the Board necessary that this letter be written to set the record straight as to its position in this matter.

"The real import of the Congressional mandate under which the Board issued this ruling might be overlooked if one considered only the brief reference to it in the second paragraph of your letter. For this reason it seems desirable to repeat that paragraph 12 of Section 19 of the Federal Reserve Act provides that 'No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand.' (Underscoring supplied by us.) Furthermore, the same section also authorizes the Board of Governors 'to define the terms "demand deposits", * * * to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof.'

"You will recall that in 1937 the Corporation and the Board agreed upon the incorporation in their respective regulations of identical language as follows: 'Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.' A joint statement was issued announcing that the purpose of this action was merely to restate principles of law as decided by the Courts and to provide for dealing with each case upon the facts of that specific case. This announcement was intended to make clear the position that had been agreed upon that questions arising under the regulation would not be dealt with by generalization. The Board has adhered to the position thus agreed upon and made no rulings,

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"either general or specific, upon the question under discussion until it was requested by the Office of the Comptroller of the Currency, as stated in our letters of August 6, to rule upon the practice of the particular National bank mentioned. It has refrained from any generalization on this subject and therefore is not prepared to agree with the generalization in your letter that, if the absorption of exchange charges constitutes a prohibited payment of interest, it is equally clear that the absorption of internal service charges, telephone and telegraph charges and postage for depositors is likewise a prohibited interest payment. The Board feels that it should not attempt to rule upon any one of these practices until the necessity arises therefor in a particular case.

"Until the request came from the Office of the Comptroller of the Currency for a ruling, and even for some time afterwards, it was hoped, and there was some reason to believe, that the practice on the part of some banks of absorbing exchange charges as a consideration for deposits would diminish, particularly since many bankers regarded it as unsound, and that the problem would eventually solve itself without more specific action. Recently, however, it has appeared that the practice, instead of diminishing, has increased and the Board had been informed that some banks had taken advantage of the situation to engage in a competition for bank deposits through this practice which other banks had believed to be unlawful.

"In this connection and in view of your comments upon what the legislative intent might have been in enacting the provisions of the Banking Acts of 1933 and 1935, it seems quite pertinent to call attention to the fact that in discussing the pending provisions, Senator Glass said 'The payment of interest on demand deposits has resulted for years and years in stripping the country banks of all their spare funds.' Again he said '* * * this payment of interest, particularly on bank demand deposits, has resulted in drawing funds from the country banks to the money centers for speculative purposes'. He also said '* * * the payment of interest on demand deposits, a system viciously and partially administered, particularly in the great money centers of the country, have resulted in withdrawing from the interior country banks of the United States millions upon millions of dollars to the money centers, to be cast into the maelstrom of stock

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"gambling and we wanted to stop that'.

"From the reference in your letter to a discussion in January between representatives of the Corporation and the Board it might be inferred that this was the only occasion upon which there was a joint consideration of the Board's proposed ruling. You will recall, however, that this discussion was preceded by a meeting on November 11, 1942, attended by you and members of the Corporation's staff, by the Comptroller of the Currency and members of his staff and by members of the Board and its staff. At this meeting there were discussed the practices of certain banks in absorbing exchange charges, particularly the bank involved in the Board's ruling, in the light of letters from the Office of the Comptroller of the Currency urging upon the Board the desirability of a ruling in the matter. At this meeting it was agreed that a proposed ruling would be prepared as a basis for discussion between staff members of the three agencies. At the subsequent staff meetings the proposed ruling, which in substance was the same as finally issued, was discussed and the Corporation's staff stated that they could not agree with such a ruling although there appeared to be no disagreement on the part of the Comptroller's staff.

"In these discussions, it was clear that the ruling was not directed against any bank charging exchange, as might be inferred from your reference to the 2100 insured banks charging exchange. Rather, the ruling applied to a member bank which was absorbing the cost of exchange otherwise collectible from banks whose deposits it had solicited by offering this inducement, in lieu of the direct payment of interest, to make deposits which normally might never come to this particular bank. The Board had been under the impression from the various discussions that you did not regard this as a sound banking practice even though in your letter you say that the Corporation believes the Board of Governors' position to be untenable. The Board finds it difficult, in the light of all you say in your letter, to determine whether there could be any state of facts which in your opinion would constitute a payment of interest other than a direct payment of cash or a credit designated as interest.

"The Board is even more surprised at the statement in your letter that as you view the proposed ruling it

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"is simply another attempt to force par clearance upon nonmember banks. The Board does favor nationwide par clearance, but it agrees with you that the final determination of the question is one for appropriate legislative bodies. Consequently it must most emphatically disagree that forcing par clearance was the motive of the Board's ruling. To the contrary, the Board was confronted with the unhappy possibility that, by making such a ruling, member banks resorting to the practice in question would feel that they should withdraw from the Federal Reserve System. It must reiterate that its purpose in making the ruling was solely to carry out what it believes to be its responsibility under the law in response to a request from the Office of the Comptroller of the Currency for a ruling in the particular case disclosed by reports of examination made by National bank examiners.

"We are sending copies of this letter to Chairman Wagner, Chairman Steagall, and Representative Doughton. In addition, we are sending to Senator Glass copies of this letter, of your letter to Senator Wagner, and our letter to the Comptroller of the Currency."

Approved unanimously.

Memorandum of this date addressed by Mr. Bethea to all division heads to which was attached a copy of a letter dated September 6, 1943, from Mr. Bartelt, Chairman of the Interdepartmental War Savings Bond Committee, enclosing 165 tickets to be used by the Board's organization for admission to a special performance put on by the Army at the Washington Monument Grounds at 8:00 p.m. on September 22 in connection with the Treasury War Bond Show. The memorandum suggested means of distributing the tickets but stated that the question as to how each division's allotment would be distributed would be left to the division head's discretion, and that, in view of the fact that there would not be enough tickets for all employees, the Board was

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agreeable to allowing employees not receiving tickets to take two hours off on the Board's time to visit the show, with the understanding that this should be done to suit the convenience of the division and that not more than a few employees would be permitted to be absent at the same time.

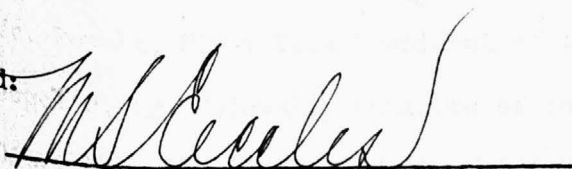
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.