

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 11, 1943, at 1:30 p.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczak
 Mr. McKee
 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 November 10, 1943, were approved unanimously.

Memorandum dated November 10, 1943, from Mr. Morrill, recommending that Bricen Barnes be appointed as a laborer in the Secretary's Office on a temporary basis for an indefinite period, with basic salary at the rate of \$1,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, with the understanding that if anything derogatory should develop in the investigation of his references his services may be terminated immediately.

Approved unanimously.

Memorandum of this date from Mr. Morrill, recommending that Mrs. Della M. Payne be appointed as a charwoman in the Secretary's Office on

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a temporary basis for an indefinite period, with basic salary at the rate of \$1,200 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 November 5, 1943, from Mr. Smead, Chief of the Division of Bank Operations, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective November 16, 1943:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Daniels, Mortimer B.	Technical Assistant	\$5,200	\$5,400
Conkling, Gerald M.	Technical Assistant	5,100	5,400
Goheen, Loretta	Senior Clerk	2,200	2,300
Trott, Sarah L.	Secretary to Mr. Horbett	1,980	2,100
Chadik, Mary Ann	Clerk	1,740	1,800
Garrison, Doris	Clerk	1,620	1,740
Hobson, Dorothy	Clerk	1,440	1,560

Approved unanimously.

Memorandum dated November 5, 1943, from Mr. Smead, Acting Administrator for the War Loans Committee, recommending that the following increases in basic annual salaries of employees in the Office of the Administrator for the War Loans Committee be approved, effective November 16, 1943:

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<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Fields, Catherine	Secretary to Mr. Boothe	\$1,980	\$2,100
Holmes, Mary	Clerk	1,740	1,800

Approved unanimously.

Memorandum dated November 5, 1943, from Mr. Morrill, submitting the resignation of Mrs. Sadie M. Mann as a charwoman in the Secretary's Office, to become effective as of the close of business on November 18, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"In accordance with the request contained in your letter of November 4, 1943, the Board approves the appointments of J. Bennett Barlow, Joseph Garfinkel, Frederick J. Scholz and Richard R. Tollas as assistant examiners for the Federal Reserve Bank of New York. Please advise us of the dates upon which these appointments become effective."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The correction contained in your letter of November 5, 1943, with respect to the annual salary of Mr. Herbert I. Lewis, whose appointment as an assistant examiner for the Federal Reserve Bank of Richmond was approved by the Board on November 1, 1943, has been duly noted."

Approved unanimously.

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Letter prepared for the signature of Mr. Ransom to Honorable Claude Pepper, United States Senate, reading as follows:

"Chairman Eccles told me of your recent telephone conversation with him in regard to the Board's ruling published in the September 1943 issue of the Federal Reserve Bulletin (p. 817) and the inquiry of the American National Bank of Jacksonville, Florida, regarding the application of this ruling to the bank's practice.

"This is the bank which was formerly a State bank under the name of the South Side Bank and which was converted to the American National Bank of Jacksonville under a charter issued by the Comptroller of the Currency as of January 2, 1943. As you may know, it is located in a residential section about two miles from the main business section, on the opposite side of the St. Johns River.

"Before the bank obtained its national charter it had deposits of less than \$800,000 derived almost entirely from the people of the community and it carried no bank deposits. In these circumstances the Comptroller of the Currency recognized it as a bank located in an outlying district and accordingly approved its conversion to a National bank with a capital of \$100,000 instead of \$200,000 as would ordinarily be the minimum required of National banks in cities the size of Jacksonville. On the basis of these facts, and upon the bank's application, the Board of Governors granted permission to the bank to carry reduced reserves, that is to say, instead of carrying the reserves required of the other National banks in Jacksonville, which is a reserve city, it was permitted to carry the lower reserves required of 'country banks'.

"Last Spring, however, the Board was advised that the bank was actively soliciting bank accounts and it appeared that the bank held balances of other banks in the amount of \$6,876,000, or over 82% of its total deposits of \$8,367,000, as of June 30, 1943. In soliciting accounts from correspondent banks, the bank offered, as an inducement, to absorb the cost of collection on nonpar items, provided compensating balances were carried with it, and stated that the balance necessary to offset all costs figures around \$2 for each \$1 of nonpar items during the month. In these circumstances, the Board of Governors

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"on July 31, 1943, revoked the permission previously granted to carry lower reserves against deposits than are required to be maintained by member banks in reserve cities, which means that the bank since then has been required to maintain the same reserve percentage as the other National banks located in Jacksonville.

"Aside from the fact that these circumstances required the revocation of the permission to carry reduced reserves, the method by which this bank has acquired and is carrying bank deposits appears to be contrary to the Board's ruling in the Federal Reserve Bulletin for September 1943. In that ruling the Board acted upon the request of the Comptroller of the Currency for a ruling upon the facts of a specific case involving another bank, arising under the Banking Act of 1933, which provided that no member bank 'shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand' (italics ours) and the Banking Act of 1935 which authorized the Board of Governors '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 purpose of this section and prevent evasions thereof.'

"Clearly, it is not a natural thing for a number of other banks to carry demand deposits in a small residential community bank like this one--it is obvious that these balances have been diverted from other uses. Not only is the inducement offered evidently a device to evade the prohibition against the direct payment of interest on such deposits, but for a small bank like this the carrying of large amounts of demand deposits for other banks (more than four-fifths of its total deposit liabilities) for no reason other than the inducement in question is an unsound banking practice which might at any time lead to serious consequences if the bank were faced with the necessity of liquidating assets in haste and possibly at a loss in order to meet withdrawals without previous notice.

"A further explanation of the Board's published ruling is set out in the enclosed mimeographed statement which was transmitted to the Presidents of the Federal Reserve Banks for their information.

"The Board's action in issuing this ruling was rested squarely on the meaning of the term 'interest' as a matter

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"of general law. The Courts have dealt with hundreds of cases, particularly in the usury field, in which the same general conception of 'interest', as defined by the Board in its Regulation Q, was applied to the facts of particular cases and judgment rendered accordingly.

"As you know, the Banking Acts of 1933 and 1935 are Congressional enactments of general application throughout the United States to all banks subject to their provisions, and consequently the Board would treat all banks alike that were following substantially similar practices. The failure of any one bank or group of banks to comply would be no excuse for any other bank or group of banks to violate the law. In due course of examination of banks, violations of this statute will be investigated, reported, and treated in the same manner as are violations of other Federal laws relating to banks.

"I will be glad at any time to discuss the whole subject with you. If you will let me know, I will come to your office for this purpose."

Approved unanimously.

Telegram to The Dealers Building Products Co., Pittsburgh, Pennsylvania, reading as follows:

"No change in Amendment No. 6 to Regulation W (to bring it in line with Conservation Order L-41 of the War Production Board as amended effective November 1, 1943) has been made or is contemplated."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley

Secretary.

Approved:

W. C. Cullen

Chairman.