A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Monday, November 15, 1943, at 10:00 a.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
Mr. Thurston, Special Assistant to the Chairman
Mr. Smead, Chief of the Division of Bank Operations
Mr. Paulger, Chief of the Division of Examinations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, General Attorney
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel
Mr. Berntson, Clerk in the Secretary's Office

Messrs. Charles E. Spencer, Jr., George L. Harrison, William F. Kurtz, B. G. Huntington, H. Lane Young, Edward E. Brown, Lyman E. Wakefield, W. Dale Clark, and George M. Wallace, members of the Federal Advisory Council representing the First, Second, Third, Fourth, Sixth, Seventh, Ninth, Tenth, and Twelfth Federal Reserve Districts, respectively

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

Digitized for FRASER
http://fraser.stlouisfed.org/

Mr. Brown stated that the subject of the termination of war contracts, on which the Federal Advisory Council had adopted a resolution at its separate meeting yesterday, was the most important matter to be considered at this meeting, but that while the resolution was being typed the Council would like to consider certain other matters with the Board.

The first of these was the need for a limitation on the right of the Government to demand reimbursement for Government checks on which endorsements had been forged. Mr. Brown said that at the present time banks were subjected to a contingent liability for an unlimited period on their endorsements of Government checks. He also said that the American Bankers Association and other banking groups had been attempting to get the Treasury Department to agree to some limitation without much success, that he did not know whether legislation had been proposed, but that it was thought it would be better to get an agreement on the part of the Treasury and the General Accounting Office as to what should be done before drafting the necessary legislation. He said that, while the Council had passed no resolution on the subject, it wished to urge that the Board lend its support to the enactment of some sort of statute of limitation in the interest of all the banks of the country.

Mr. Brown then stated that the Council was disturbed by a circular which the Smaller War Plants Corporation had distributed recently and in which the Corporation stated that its regional offices had authority without review from Washington to make fully guaranteed loans of up to $25,000, with an interest rate of 4 per cent, to concerns engaged in

d for FRASER
tlouisfed.org/

either war or essential civilian work. Mr. Brown also said that such a policy would not affect the large banks particularly but, if carried out in the manner indicated by the circular, would be ruinous to the small banks and would result in loans on an unsound credit basis to enable inefficient organizations to continue in business.

Chairman Eccles indicated that the time to have raised objection on this matter was when the legislation establishing the Smaller War Plants Corporation was enacted, but that banking groups generally had not paid much attention to it. He went on to say that the Board had felt that the Corporation was entirely unnecessary in view of the provision for Regulation V loans and the lending powers of the Reconstruction Finance Corporation and its subsidiary corporations, but that the legislation was passed because of insufficient opposition to it.

Mr. Brown commented that it had not been thought that the Corporation would be used for a program such as that now proposed and that it was understood that some of its directors had resigned in protest.

Reference was made to a statement made on this subject by Mr. Wiggins, President of the American Bankers Association, which had been interpreted in the press as favoring guaranteed loans, and Mr. Ransom read from a letter which he had received from Mr. Wiggins in which he stated his position that the guarantee of loans to business and industry by Government or Governmental agencies is an expedient that may be necessary for war purposes, but that such guarantees have no place in a peacetime credit structure.

The members of the Board indicated that they were in agreement

for FRASER
fraser.stlouisfed.org/

with the position of the Council and Mr. Brown said that perhaps the Board could suggest how the problem might be met.

Chairman Eccles suggested that the Council prepare a statement of its position on the matter and submit it to the Board which could send it to the proper authorities with the Board's own views. He went on to say that he felt that the American Bankers Association could point out that the smaller banks were already suffering because of competition of various Government lending agencies and that to add this type of business credit could go a long way to putting small banks out of business.

At this point Mr. Ransom withdrew from the room to attend to a matter not related to the meeting.

Mr. McKee expressed the opinion that this was an extremely important question, that the Council was not enough concerned about it, and that it was most unfortunate that the controversy with respect to the final audit of terminated war contracts had arisen at this time to complicate the situation in such a way as might result in the Smaller War Plants Corporation getting still larger powers unless steps are taken to insure the proper presentation of the problem.

Mr. Brown responded to the effect that following this meeting the Council would meet in separate session and instruct its executive committee to prepare a statement along the lines suggested by Chairman Eccles for transmission by the Board to such individuals and agencies as it might deem advisable.

At Mr. Brown's request Mr. Lichtenstein read the resolution adopted by the Federal Advisory Council with respect to final settlement

for FRASER
fraser.stlouisfed.org/

of terminated contracts which was referred to at the beginning of this meeting. Mr. Brown stated that the Council would like to have the Board send the statement to Messrs. Byrnes and Baruch and other Government officials who might be concerned with contract termination.

Chairman Eccles stated that all of the administrative departments and agencies of Government appeared to be in full agreement with the armed services with respect to the need of adequate termination legislation and that they were all opposed to the position of the Comptroller General that contract settlements should be subject to final audit by his office.

In a discussion of the resolution and to whom it should be sent, Mr. Harrison suggested the addition to the resolution of a further point that if settlements when made were not final, or if they were made subject to a final audit, bank credit for working capital after the war would not be made available in many cases until settlement became final.

There was some difference of opinion on the part of the members of the Council whether this addition should be made and Mr. Brown said the Council would meet in a separate session to consider this point.

During the discussion Mr. Fleming, a member of the Federal Advisory Council representing the Fifth Federal Reserve District, joined the meeting.

There was also further discussion of the question to whom the resolution should be sent by the Board, and Mr. Brown said that in transmitting it to the Board the Council would suggest to whom it would like to have the resolution sent.

for FRASER
fraser.stlouisfed.org/

Mr. Ransom rejoined the meeting at this point.

Mr. Brown also said that, in view of the extreme importance of the question of termination of war contracts to the banking system, it would be helpful if the Board in transmitting the resolution would concur in the position taken by the Council.

The members of the Board indicated that they were in general agreement with the resolution and would be willing to express their agreement therewith.

Mr. Brown then referred to a discussion at the meeting of the Council yesterday with respect to Regulation Q, Payment of Interest on Deposits. He indicated that all the Council members felt that the ruling of the Board with respect to the absorption of exchange charges was causing an ever-increasing number of banks to discontinue the practice of absorbing exchange, that this tendency would continue to spread to other parts of the country, that the Board should impress upon Federal Reserve bank examiners, and so far as possible upon national bank examiners, the necessity for a thorough investigation of the practice of absorbing exchange as it was understood that was not being done in all cases, and that such an investigation would be more helpful than any other single thing to bring about compliance with the ruling.

Mr. Ransom said that more progress had been made since the publication of the Board's ruling than he had thought would be possible, and that the Federal Reserve Bank examiners and the national bank examiners would be expected to continue to follow the matter up in connection with each examination and call specific attention to the fact if the bank were absorbing exchange. He also referred to the October 16, 1943, issue of

d for FRASER
tlouisfed.org/

Washington, a newsletter of events of interest to American Bankers Association members as reported by the officers and staff of the Association, in which appeared an article entitled "Absorption of Exchange Charges a Payment of Interest?" containing, among others, the following statements:

> "The question that the bankers must now decide is whether or not they want the ruling of the Board of Governors to become a fixed law or do they desire a legislative clarification, by amendment to the law, to provide that the absorption of exchange and the performance of other banking services to a correspondent bank shall not be considered as payment of interest on demand deposits.
>
> "The question is larger than the particular issue involved. Within recent years banks generally have instituted service charges of various kinds, many of which are measured by the balance in a depositor's account. In many cases, charges are not made when the balance is large enough for the earnings to absorb the cost of the service rendered. There seems to be little difference between a payment by a bank to another bank covering exchange costs and the payment of salaries, wages, insurance, etc. for services performed."

He expressed the opinion, which was concurred in by members of the Council, that service charges were an entirely different matter from exchange charges and that if anything were done to place obstacles in the way of reasonable use by banks of service charges a serious problem would result.

At this point Mr. Kurtz withdrew from the meeting.

Mr. Brown said the Council had on its agenda the subject of so-called occupation currency but had not discussed it for the reason that it was not a matter of immediate concern to the Council.

Chairman Eccles said it was a matter on which the System had no responsibility, that it involved decisions by the Treasury and the military services, and that except for keeping as fully informed as possible on the matter, the Board had not been concerned with it.

d for FRASER
tlouisfed.org/

Mr. McKee inquired whether the Council had given any thought to possible shifts of deposits after the war and what preparation should be made to provide for such shifts. This matter was discussed briefly but no conclusions were reached.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.

for FRASER
fraser.stlouisfed.org/