

12/9/43 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, December 9, 1943, at 11:00 a.m.

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

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 hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 8, 1943, were approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of San Francisco and its Branches as submitted with your letter of November 18, 1943, with the exception of the changes in the Legal Department, namely the establishment of the new positions of Assistant General Counsel and Legal Assistant and the discontinuance of the position of Assistant to General Counsel.

"The positions of Assistant Counsel and Assistant General Counsel are regarded as official positions rather than as positions to be covered under the personnel classification plan. At the Federal Reserve Banks of New York and Chicago, the Assistant General Counsels are included in the list of officers as are the Assistant Counsels at the Federal Reserve Banks of Boston and Minneapolis.

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"These are the only Federal Reserve Banks now having such positions.

"The Board is prepared to consider approval of a salary for an Assistant General Counsel for your Bank whenever your directors elect someone to fill that position.

"It is understood that the establishment of the position of Assistant General Counsel is not proposed in contemplation of future expansion of the Legal Department, but is proposed in view of the responsibilities which have been placed on the Department and as part of the program for training an ultimate successor to your General Counsel.

"It is noted that while you propose a maximum salary of \$7,500 for the position of Assistant General Counsel, you do not intend to pay any such salary at this time. In view of the fact that the establishment of the new official position of Assistant General Counsel will be part of a training program, it is believed that the initial salary need not constitute the ceiling but that the proposed maximum of \$7,500 can be considered the pattern for the position within which future adjustments may be made upon approval by the Board without certification of the increase to the Joint Committee.

"From the description of duties of the present position of Assistant to General Counsel and the proposed position of Legal Assistant, it appears that the duties of the two positions are essentially the same. The proposed maximum salary of \$5,000 for the position of Legal Assistant, as compared with the maximum salary of \$4,500 for the position of Assistant to General Counsel, therefore, in effect, represents an increase in salary which would have to be certified to the Joint Committee. The Board is prepared to approve the discontinuance of the position of Assistant to General Counsel and the establishment of the position of Legal Assistant, with maximum annual salary of \$5,000, upon receipt of an appropriate certificate to support the increase in salary."

Approved unanimously, together with
the following letter to the Joint Committee
on Salaries and Wages:

"Under the procedure established by General Order No. 19, of the War Labor Board and the authority granted by the Commissioner of Internal Revenue, transmitted herewith

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"are the original and four copies of five certificates of the Federal Reserve Bank of San Francisco with respect to increases in the maximum annual salaries, under the personnel classification plan, for twelve positions at the Federal Reserve Bank of San Francisco and its Branches.

"These increases have been approved by the Board of Governors of the Federal Reserve System as submitted.

"In transmitting the certificates, attention is called to the fact, which has been discussed with representatives of the War Labor Board and of the Commissioner of Internal Revenue, that maximum annual salaries approved under the personnel classification plan are not, in general, established rates paid for all employees coming within the respective groups. They represent instead maximums within which adjustments, including increases due to individual merit and earned through long service, may be made by the Reserve Bank without further reference to the Board of Governors."

Letter to "The Security State Bank of Pecos, Texas", Pecos, Texas, 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.

Letter to the "American Bank & Trust Company", New Orleans, Louisiana, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of the National American Bank of New Orleans, New Orleans, Louisiana, the national bank into which the American Bank & Trust Company, New Orleans, Louisiana, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency

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"to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Louisiana, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"After the conversion of the American Bank & Trust Company into the National American Bank of New Orleans becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise trust powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Atlanta for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

Approved unanimously.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"There is enclosed a copy of a letter received by the Board from Mr. L. B. Tyler, Executive Vice President, Scranton National Bank, Scranton, Pennsylvania, dated October 30, 1943, with its enclosures, regarding the question of whether a practice of analyzing individual accounts followed by the bank constitutes a 'payment of interest' on demand deposits.

"It appears that the bank, in analyzing the accounts of depositors, uses a form known as 'Monthly Account Analysis'. Use of the form involves the assessment against the account of theoretical costs for certain services performed in connection with the account as follows: Checks paid at five cents each, transit items at three

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"cents each, clearing house items at one cent each, deposits at five cents each, list checks at three cents each, return items at ten cents each, and overdrafts at fifty cents each. The total of these charges is designated in the analysis as 'Account Maintenance One Month' and to this total there is added 15 per cent. At the same time, the theoretical earning value of the account for the month is estimated by deducting from the average daily collected balance an amount equal to the 18 per cent required reserves and treating the so-called 'Net Earning Balance' as though the bank had it invested at a rate of 1 per cent a year. If the cost of services, estimated in the above manner, exceeds the theoretical earnings on the account, the difference is set up as 'Cost of Services in Excess of Earnings'. Apparently, the customer may be charged this amount for the services rendered by the bank. It is assumed, however, that in no case, as a result of the analysis, is any payment made to the customer or any credit given which increases the amount of his deposit balance.

"The question raised by the correspondence involves the basic distinction between payments of 'compensation for the use of funds' and charges made for keeping balances and performing other services for a customer. There is no Federal law or regulation which prohibits a bank from imposing so-called 'service charges' against a depositor -- nor for that matter which requires it to receive deposits at all. Its relations with a customer and the service charges which may be imposed are matters of contract between the bank and the customer.

"It is not unusual for the management of a bank to formulate some method of internal accounting designed to enable the management to analyze individual deposit accounts and determine the terms and conditions under which it will keep and service such accounts for depositors. It is common for a bank using an account analysis also to use as one of the factors in making the analysis its estimate of the return it can obtain by investing the funds which the customer has deposited with it. Likewise, it is common for such a bank to include in its analysis estimated factors of cost in servicing the account. In some cases the result is that the customer is charged by the bank for keeping and servicing the account. But the Board does not understand that in any case is a payment made to or for the account of the customer as 'compensation for the use of funds'. As the Board understands

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"the facts, no payments are made at all. The analysis is simply an internal arrangement to enable the bank to determine whether it should make a charge. Under these circumstances, the Board is of the opinion that, under the facts of the specific case, the use of the 'Monthly Account Analysis' is not a 'payment of interest' and, accordingly, does not violate section 19 of the Federal Reserve Act or the provisions of the Board's Regulation Q.

"It will be appreciated if your bank will advise Mr. Tyler in accordance with the views above expressed."

Approved unanimously, together with
the following letter to the Presidents of
all the Federal Reserve Banks:

"For your information in connection with the question whether a practice of analyzing individual accounts followed by a bank constitutes 'a payment of interest' on demand deposits, you will find enclosed a copy of a letter of this date addressed to a Federal Reserve Bank. Copies of the correspondence in relation to this matter have been furnished to the Comptroller of the Currency and it is expected that there will be published in the next issue of the Federal Reserve Bulletin a statement containing the substance of the ruling set forth in the enclosed letter."

Letter prepared for the signature of Chairman Eccles to Honorable Bernard M. Baruch, Director of Advisory Board on War and Post-war Adjustment Policies, reading as follows:

"This will refer to your letter of November 15, in which you advised that Mr. Byrnes had asked you to develop unified programs and policies for dealing with war and post-war adjustment problems, and inquiring as to what aspects of demobilization concern the Federal Reserve Board and as to the problems on which the Board may have done some work. You also advised that you would like to have any material, reports or memoranda that may have been prepared in this agency on any aspect of these problems, as well as any statements reflecting our views.

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"Shortly after receipt of your letter, you and Mr. Hancock came to luncheon and we discussed a number of the aspects of post-war adjustment. As I outlined to you at the time, the financial aspects are of chief concern to this agency and have been the subject of our studies to date. In our discussion, I made several suggestions for financing the successive stages in the resumption of peacetime production, beginning with termination. I want you to know that, responsive to your letter, I should be glad at any time to confer further with you or anyone you might designate.

"Since you and Mr. Hancock were here, we have been studying the problem further, and within the course of a few days, I hope to be able to place in your hands a memorandum on this subject. This paper will outline the scope of existing financing facilities provided by the Government and our suggestions for changing or re-adapting these facilities in order to assure adequate financing of termination, of the disposal of Government-owned war plants, machinery and supplies, of the reconversion of war industries to civilian production, and the general resumption of business to peacetime production."

Approved unanimously.

Memorandum dated December 4, 1943, from Messrs. Thomas and Parry, Assistant Director of the Division of Research and Statistics and Chief of the Division of Security Loans, respectively, requesting approval, for the reasons stated in the memorandum, for conducting for the year 1943 the retail credit survey, one of the consumer credit statistical projects transferred to the Board of Governors from the Department of Commerce, it being proposed to expand the survey in only one important respect so as to collect from incorporated and unincorporated respondents the basic items of their current assets and liabilities. The memorandum stated that the Federal Reserve Banks had agreed that the survey should be continued and that most of them

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avored the inclusion of the liquid asset items. Attached to the memorandum was a draft of the schedule tentatively proposed for the collection of the data.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. Coates
Chairman.