

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 10, 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. 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 December 9, 1943, were approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 7, by the Federal Reserve Bank of Atlanta on

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December 8, by the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on December 9, 1943, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated December 6, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Hazel A. Walz be appointed as a library assistant in that Division, with basic salary at the rate of \$2,000 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.

Memorandum dated December 6, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mrs. Kathryn J. Hall be appointed as a clerk in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,680 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 and subject to a satisfactory check of her references.

Approved unanimously.

Memorandum dated December 7, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for

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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 one month for the period December 18, 1943, through January 17, 1944, with no change in his present basic salary at the rate of \$4,200 per annum, which would amount to \$350 for the one-month period plus overtime of \$52.36. The memorandum stated that no further extension of Mr. Chlepner's appointment would be requested.

Approved, Mr. McKee voting "no".

Letter to Mr. John A. Davis, Director of the Review and Analysis Division, Office for Emergency Management, President's Committee on Fair Employment Practice, reading as follows:

"In compliance with the request contained in your Committee's letters of August 22, 1942, and October 21, 1943, for reports every four months as to data on negro employment, enclosed herewith is a report as of November 30, 1943, for the Board of Governors of the Federal Reserve System.

"As the Committee has been advised previously, the Board employees are not under the classified civil service, and accordingly, in the enclosed report all employees are shown as unclassified.

"On the basis of Civil Service classification the 31 negro employees would probably be classified as follows:

CPC-2 . . .	4
CPC-3 . . .	18
CPC-4 . . .	2
CAF-1 . . .	4
CAF-2 . . .	2
CAF-3 . . .	1"

Approved unanimously.

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

"In accordance with the recommendations contained in your letter of December 7, the Board approves the appointment of Prentiss L. Webb, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Richmond, and the appointments of Raymond E. Caudle and John F. English as assistant examiners, all effective January 1, 1944.

"It has been noted that, effective January 1, Examiner Armistead will be designated Chief Examiner."

Approved unanimously.

Memorandum dated December 4, 1943, from the Personnel Committee, recommending (1) the reappointment of all Class C directors of the Federal Reserve Banks whose terms would expire December 31, 1943 (except Messrs. Oscar G. Johnston, J. B. Cozzo, and St. George Holden at the Federal Reserve Banks of St. Louis, Dallas, and San Francisco, respectively, for which it was stated separate recommendations would be submitted later), (2) the redesignation for the year 1944 of all Chairmen and Federal Reserve Agents at the Federal Reserve Banks, and (3) the redesignation for the year 1944 of the Deputy Chairmen at all of the Federal Reserve Banks (except St. Louis, Dallas, and San Francisco where the directors whose terms expired this year were also Deputy Chairmen).

In accordance with these recommendations, actions were taken by the Board as set forth below:

The following were reappointed as Class C directors of the respective Federal Reserve Banks shown, each for a term of three years beginning January 1, 1944:

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<u>Name</u>	<u>Federal Reserve Bank</u>
Henry I. Harriman	Boston
Robert D. Calkins	New York
Warren F. Whittier	Philadelphia
George C. Brainard	Cleveland
Robert Lassiter	Richmond
Rufus C. Harris	Atlanta
Paul G. Hoffman	Chicago
W. D. Cochran	Minneapolis
R. B. Caldwell	Kansas City

The following were redesignated as Chairmen and Federal Reserve Agents at the respective Federal Reserve Banks shown for the year 1944, and the compensation of each as Chairman and Federal Reserve Agent was fixed on the uniform basis for the same position at all Federal Reserve Banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors:

<u>Name</u>	<u>Federal Reserve Bank</u>
Albert M. Creighton	Boston
Beardsley Ruml	New York
Thomas B. McCabe	Philadelphia
George C. Brainard	Cleveland
Robert Lassiter	Richmond
Frank H. Neely	Atlanta
Simeon E. Leland	Chicago
William T. Nardin	St. Louis
W. C. Coffey	Minneapolis
R. B. Caldwell	Kansas City
Jay Taylor	Dallas
Henry F. Grady	San Francisco

The following were redesignated as Deputy Chairmen of the respective Federal Reserve Banks shown for the year 1944:

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<u>Name</u>	<u>Federal Reserve Bank</u>
Henry S. Dennison	Boston
William I. Myers	New York
Warren F. Whittier	Philadelphia
R. E. Klages	Cleveland
W. G. Wysor	Richmond
J. F. Porter	Atlanta
W. W. Waymack	Chicago
Roger B. Shepard	Minneapolis
Robert L. Mehornay	Kansas City

Memorandum dated December 4, 1943, from the Personnel Committee, submitting the name of P. O. Davis, Director of Extension Service of the Alabama Polytechnic Institute, Auburn, Alabama, as a director of the Birmingham Branch of the Federal Reserve Bank of Atlanta for the unexpired portion of the term ending December 31, 1945, and recommending

- (1) that the Chairman of the Federal Reserve Bank of Atlanta be requested to ascertain informally whether Mr. Davis would accept appointment and
- (2) that the appointment be tendered if he would accept.

Approved unanimously.

Memorandum dated December 8, 1943, from the Personnel Committee, recommending that Douglas W. Brooks, who has been serving as a Class C director of the Federal Reserve Bank of St. Louis since January 1, 1940, be designated as Deputy Chairman of the Bank for the year 1944.

Approved unanimously.

Letter to "The Long Branch Banking Company", Long Branch, New Jersey, reading as follows:

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"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 Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to Mr. McRae's letter of November 29, 1943, with enclosure, and previous correspondence regarding the purchase of certain assets and assumption of deposit liabilities of The Mechanics National Bank of Providence by the Industrial Trust Company, both of Providence, Rhode Island, effected as of the close of business October 23, 1943.

"In view of the information submitted, the Board is satisfied that the transaction did not involve a change in the general character of the assets or broadening in the functions exercised by the Industrial Trust Company within the meaning of the condition of membership to which it is subject."

Approved unanimously.

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

"This refers to your letter of November 12, 1943, with respect to the proposal of The First-Central Trust Company, Akron, Ohio, to acquire for \$350,000, payable in cash, all of the capital stock of The Akron Central Tower Company, whose sole asset other than cash and receivables is represented by the First-Central Tower, a banking and office building in Akron, Ohio, in which the member bank maintains its principal office.

"As you point out, the question for consideration is whether section 23A of the Federal Reserve Act is applicable, or whether section 24A is controlling. Section 23A restricts

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"investments in the stock of an affiliate to 10 per cent of the capital stock and surplus of the member bank, where- as section 24A permits the member bank to invest in stock of a corporation holding the bank premises in an amount equal to the capital stock of such bank. It appears that the \$350,000 which it is proposed to invest in stock of The Akron Central Tower Company will far exceed 10 per cent of the bank's capital and surplus.

"As you know, the Board in August 1941 considered a very similar case involving The Western Security Bank, Sandusky, Ohio, and arrived at the conclusion that a violation of the provisions of section 23A had been committed. As a result, the bank dissolved the affiliated building company and purchased the bank building. The Board has considered this possible conflict between sections 23A and 24A several times and has always arrived at the same conclusion.

"As you know, sections 23A and 24A both were enacted by the Banking Act of 1933, and although the latter specifically relates to direct or indirect investments in banking premises, it cannot be said that that section alone should govern and control in determining the limitations on such investments when another element, namely, affiliates, is involved. Section 23A was enacted for the specific purpose of controlling investments in affiliates and limited all such investments unless specifically excepted. Section 23A recognized that there would be affiliates engaged in holding the bank premises, and therefore specifically excepted such affiliates provided they were engaged solely in such business.

"In 1935, section 23A was amended so as to liberalize this exception by striking out the word 'solely', but the provision was actually made more restrictive as to its future application by providing that the affiliate in order to be excepted must have been engaged on June 16, 1934, in holding the bank premises or in maintaining or operating properties acquired for banking purposes prior to that date.

"Thus, the whole legislative history of these two sections indicates that Congress did not overlook affiliates engaged in holding bank premises when it placed the rigid restrictions upon investments by member banks in the stock of affiliates, and the Board is unable to arrive at a conclusion differing from that reached in its earlier ruling.



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"As you know, the bank is subject to condition of membership numbered 8 which calls for reference to the Board for consideration of any investment in a bank building or a site for a bank building. In view of the opinion that the proposed transaction would substantially improve and benefit the member bank, this is to advise you that the Board will offer no objection to the direct purchase of the building if the bank decides to follow this course."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Honorable James V. Forrestal, Under Secretary of the Navy, reading as follows:

"As you know, Executive Order No. 9112, authorizing the War Department, the Navy Department, and the Maritime Commission to guarantee loans for war production purposes, was issued on March 26, 1942, as a result of letters jointly addressed to the President by the Chairman of the War Production Board, the Under Secretary of War, the Under Secretary of the Navy, and the Chairman of the Maritime Commission. Under the Order, the Federal Reserve Banks act as fiscal agents of the United States in connection with such guarantees, subject to such directions and conditions as the Board of Governors of the Federal Reserve System may prescribe after consultation with the Secretary of War, the Secretary of the Navy, or the Maritime Commission, or their authorized representatives. Pursuant to this provision, the Board of Governors, on April 6, 1942, issued its Regulation V after consultation with representatives of the guaranteeing agencies. This regulation provides that the War Department, Navy Department and Maritime Commission will issue general instructions with respect to the operations of the Federal Reserve Banks under the Executive Order, after consultation with the Board of Governors.

"In accordance with the Executive Order and Regulation V, the War Department, Navy Department, and Maritime Commission, after consultation with the Board of Governors, issued general instructions in the Spring of 1942 and have from time to time issued additional specific instructions regarding various phases of the program. Until recently no action of importance affecting any phase of the program has been taken without consulting with or at least

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"informing the Board of Governors and the other agencies concerned. With this cooperation on the part of all the agencies concerned, the program has in general worked harmoniously and successfully.

"I was therefore much surprised to learn a few days ago that, pursuant to a request of the Under Secretary of the Navy on September 29, 1943, an opinion was rendered by the Attorney General on November 30, 1943, on the question whether commitments made prior to the termination of a borrower's war production contracts guaranteeing financing institutions on loans to be made only after termination of such contracts are authorized under Executive Order 9112. The opinion holds that such commitments or guarantees are authorized by the Order and are 'properly sanctioned by law'. The opinion, however, does not stop there but adds certain precautions from an administrative or policy standpoint, which may have the effect of slowing up the whole program of financing war production.

"It is understood that discussions with respect to a possible opinion in this matter were had between representatives of the Navy Department and the Attorney General late in August 1943, at a time when the armed services, the Maritime Commission and the Board of Governors of the Federal Reserve System were discussing a plan for guaranteeing loans under Executive Order 9112 to provide funds for freeing a borrower's working capital upon termination of contracts as well as to provide for his war production. The program, which was worked out and was put into effect (known as the VT program), provides for guarantees under which funds are made available to a war contractor both for war production purposes and also upon termination of his contracts. I also understand that, before the opinion was rendered, representatives of the Navy Department were furnished with a draft of the proposed opinion and they made certain suggestions with reference thereto.

"The Board of Governors was not consulted before the Navy asked for this opinion, and it is understood also that the War Department and the Maritime Commission were not consulted, although under the Executive Order all of these agencies are directly concerned. Likewise none of these agencies was advised of the discussions between the Navy Department and the Attorney General with respect to the draft of the proposed opinion or given an opportunity to make any suggestions concerning it.

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"Information as to the fact that such an opinion has been issued and as to its general content was given out by the Navy Department and has become common knowledge among bankers in New York and Chicago and doubtless elsewhere. I understand that the impression is prevalent among them that the Attorney General has in effect closed the door to guarantees of loans made to subcontractors on terminated contracts. The opinion also casts a cloud upon the validity of some existing guarantees. I regard it as unfortunate that information regarding the opinion was given out, particularly so in view of the fact that efforts are to be made to obtain some modification of it.

"If the financing program under Executive Order 9112 is to work satisfactorily, the various agencies concerned must, in my judgment, continue to function on a cooperative basis, as contemplated by the Order, and to take no action of importance which affects the program except after consulting with one another. This procedure was not followed when the request was made for the Attorney General's opinion or when there was an opportunity to make suggestions as to the language of the opinion. If it had been followed, the doubts regarding the program which have arisen by reason of the opinion could have been avoided.

"In connection with the Regulation V program, I would also like to mention another matter. The length of time required by the Navy Department for functioning applications for guarantees under the Executive Order after their receipt by the Finance Section has been increasing. In September 1942 sixty-four applications were approved by the Navy Department and the average time required for consideration in the Navy Department was approximately ten days. In September 1943 the Navy approved twenty-six applications, and the average time required was about twenty days. This is very considerably more than the time required for consideration of similar applications in the War Department.

"I have felt impelled to bring these matters to your attention, as I know that we are all desirous of seeing the program work as efficiently and successfully as possible. With that end in view, I trust that these matters may have your early consideration."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. S. Curlee  
Chairman.