

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 13, 1943, at 2:00 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. 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 11, 1943, were approved unanimously.

Memorandum dated December 11, 1943, from Mr. Morrill, submitting the resignation of Mrs. Lulu Shelton as a charwoman in the Secretary's Office, to become effective as of the close of business on February 3, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with the recommendation contained in your letter of December 7, 1943, the Board extends to January 24, 1944, the time within which the Oklahoma

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"State Bank, Buffalo, Oklahoma, may accomplish membership in the System."

Approved unanimously.

Letter to Honorable Robert F. Wagner, Chairman of the Senate Banking and Currency Committee, United States Senate, reading as follows:

"This refers to your communication of December 3, 1943, referring to the Board's General Counsel a letter received by you from Senator Bilbo, dated November 28, 1943, and enclosing a letter received by Senator Bilbo from Mr. J. H. Sasser, President of The Carthage Bank, Carthage, Mississippi, dated November 24, 1943.

"Mr. Sasser refers to the recent action of the National Bank of Commerce in New Orleans in deciding to charge back to its correspondents the exchange costs incurred in the collection of items and indicates that such action has been taken as the result of a recent ruling of the Board of Governors of the Federal Reserve System regarding the absorption of exchange charges by a member bank. In his letter, Mr. Sasser questions the authority of the Board under the law to determine what constitutes a payment of interest and expresses the opinion that, if the Board has such authority, it has placed the wrong interpretation upon the term.

"As you will recall, Governor Ransom wrote you under date of August 6, 1943, prior to the issuance of the ruling referred to in Mr. Sasser's letter, and outlined the previous history of this matter and the reasons for action by the Board in this specific case. For your convenience, a copy of Governor Ransom's letter of August 6 is enclosed.

"The Board's ruling was published in the September 1943 issue of the Federal Reserve Bulletin at page 817, and a mimeographed copy of the ruling is enclosed. For your further information, there are enclosed two statements relating to this matter, one with respect to the background and immediate origin of the Board's ruling and the other with respect to the Board's authority to define the term 'interest'. The latter statement was prepared by the Board's Legal Division.

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"While the enclosed material fully explains the position of the Board in this matter, it may be helpful to restate briefly the history of the subject.

"In 1933, Congress decided to prohibit member banks from paying interest on their demand deposits. This was accomplished by amending section 19 of the Federal Reserve Act so as to provide that no member bank 'shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand.' In 1935, the statute was further amended to authorize the Board to determine what shall be deemed to be a payment of interest within the meaning of the statute; but the Board has never exercised the authority so granted to it to define the term 'interest' beyond the ordinary meaning of that term under general principles of law.

"In 1935, the Board revised its Regulation Q, 'Payment of Interest on Deposits', and included in it a definition of interest under which the absorption of exchange and collection charges by a member bank as compensation for the maintenance of a deposit would have been expressly defined as a payment of interest on such deposit; but the effective date was later deferred and the definition never became effective. In 1937, the Board's Regulation Q and the corresponding regulation of the Federal Deposit Insurance Corporation were amended by providing that for the purposes of such regulations 'interest' should mean 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit.' The purpose and effect of this amendment were to rest the meaning of the term 'interest' squarely on its meaning as a matter of general law and to deal with specific cases as they might arise upon the facts involved in each case.

"The facts of the case reported in the Board's September ruling were developed in connection with an examination of a member bank and were submitted to the Board with a request for an interpretation. Applying general principles of law to the facts of the specific case, the Board expressed the opinion that the practice followed by the bank in question came within the scope of the statutory prohibition. It is to be expected that the precedent established by this ruling will be followed in future cases in which the precedent is in point.

"It is hoped that this letter, with the enclosures, will fully answer the questions raised by Mr. Sasser. Senator Bilbo's letter and Mr. Sasser's letter, with its

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"enclosure, are returned herewith."

Approved unanimously, together with
a similar letter to Honorable Theodore G.
Bilbo, United States Senate.

Thereupon the meeting adjourned.

Chester Morice
Secretary.

Approved:

McCool
Chairman.