

12/28/ A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 28, 1943, at 10:30 a.m.

PRESENT: 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. Chase, Attorney
Mr. Wyatt, General Counsel
Mr. Piser, Chief of the Government Securities Section, Division of Research and Statistics

Mr. McKee stated that yesterday Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, informed Mr. Paulger that the State Banking Department of Minnesota was considering the issuance of an order under which all State banks in Minnesota which purchased Series G savings bonds under the permission granted by the Treasury to commercial banks to invest a portion of their savings deposits in restricted issues would be required to carry such bonds at the redemption value. In discussing the matter with Mr. Greensides, Acting Chief of the Division of Examination of the Federal Deposit Insurance Corporation,

-2-

12/28/43

Mr. Paulger was also informed that the State Banking Department of Wisconsin was thinking of issuing a similar order. It was Mr. McKee's opinion that there was some possibility that if such orders were issued the movement might spread to other State banking departments, and that it would be desirable for the three Federal bank supervisory agencies to issue a statement as promptly as possible, with the concurrence of the executive committee of the National Association of Supervisors of State Banks if that could be obtained, which would say in effect that banks purchasing Series G bonds would be permitted to carry them at par.

Mr. Paulger read a draft of statement which had been prepared at Mr. McKee's request and stated that he had discussed the matter over the telephone with Mr. Hospelhorn, chairman of the executive committee of the National Association of Supervisors of State Banks, who indicated agreement with the proposed statement and stated that, if he were furnished with a copy of the statement as agreed upon by the three Federal bank supervisory agencies, he would wire it to the members of the executive committee of the Association with a request for their approval.

In the discussion which ensued, the suggestion was made by Mr. Clayton that, instead of the statement being in the form of a permission to carry Series G bonds at par, it might be better to say that banks which carried such securities at par would not be subject to criticism. There was general agreement with this suggestion.

12/28/43

-3-

At the conclusion of the discussion, Mr. McKee moved that a representative of the Board be authorized to confer with representatives of the office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation for the purpose of preparing a statement that would be acceptable to the three agencies, with the understanding that the statement thus agreed upon would be submitted to the members of the executive committee of the National Association of Supervisors of State Banks for their approval.

This motion was put by the chair and carried unanimously, and it was understood that Mr. McKee would represent the Board in the conferences with the representatives of the office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Mr. McKee said that the statement finally agreed upon would be submitted to the Board for approval.

Thereupon Messrs. Paulger and Piser withdrew from the meeting.

Mr. Ransom referred to the discussion at the meeting of the Board on December 14, 1943, at which the Board approved a letter to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, enclosing a draft of order to the Consumers Home Equipment Co. of Detroit, Michigan, to show cause why the company's license under Regulation W should not be suspended. Mr. Ransom said that subsequent negotiations with representatives of the registrant had resulted in a proposed agreement under which the registrant would consent to the issuance of an order closing all of its offices for a period of one

-4-

12/28/43

week beginning January 2, 1944, and to policing by the registrant's finance company, the American Business Credit Corporation, and other measures designed to assure compliance with the provisions of Regulation W. While Mr. Ransom regarded the proposed closing as a mild penalty for the numerous violations of the regulation which had been committed by the registrant, he felt that it was the most satisfactory solution of the problem at the present time in view of the weak financial position of the registrant and the fact that a closing for a longer period might force the company to suspend business. He said that, while he was not entirely satisfied that the closing would be effective in bringing about future compliance by the registrant with the provisions of Regulation W, in the circumstances he and Mr. Dreibelbis concurred in the recommendation of the Federal Reserve Bank of Chicago that the order suspending the license for a period of one week be issued by the Board.

Mr. Ransom then read a draft of a proposed letter to Mr. Dillard which was in the following form:

"On the assumption that Consumers Home Equipment Co. and American Business Credit Corporation will execute agreements in the form enclosed with Mr. Hodge's letter of December 23 to Mr. Dreibelbis, there is enclosed a proposed Order suspending the license of Consumers Home Equipment Co. under Regulation W for a period of one week from January 2. The Board will appreciate it if you will check the Order with respect to the correctness of recitals of fact, names, addresses, and other matters, and then have the original and one copy signed by the president of the

12/28/43

-5-

"company in the place provided at the end of the Order. As soon as the Board receives advice from you that the president has signed the Order, it will be issued. The signed original should be returned to the Board for its files."

The draft of order referred to in the above letter was also read by Mr. Ransom, after which he moved that the letter to Mr. Dillard and the form of enclosure be approved, with the understanding that the procedure followed by the Board in connection with the order suspending the license of the Consumers Home Equipment Co. would be substantially the same as that followed in the two similar cases previously acted upon by the Board.

This motion was put by the chair and carried unanimously.

Secretary's Note: Mr. Chase left the meeting to talk over the telephone with Mr. Hodge, Assistant General Counsel of the Federal Reserve Bank of Chicago, regarding the order, and, inasmuch as Mr. Hodge stated that he would like to have the text of the proposed order made available to him immediately so that the order could be signed today by Mr. Chereton, President of the Consumers Home Equipment Co., when he signed the agreement consenting to the issuance of the order, the substance of the letter to Mr. Dillard and the text of the proposed order were sent to him by wire.

Mr. Ransom then presented a telegram received by him yesterday from Y. Frank Freeman, Vice President of Paramount Pictures, Inc., Hollywood, California, stating that because of other demands upon his time he would not be able to accept appointment by the Board as a Class C

-6-

12/28/43

director of the Federal Reserve Bank of San Francisco for the three-year term beginning January 1, 1944.

It was understood that in accordance with the action taken by the Board at its meeting on December 15, 1943, Mr. Freeman would be advised by wire today that the Board had appointed him a director of the Los Angeles Branch for a further term of two years beginning January 1, 1944, and that Mr. Ransom would send him a separate wire expressing the regret of the members of the Board that he was not able to accept appointment as a Class C director of the San Francisco Bank.

It was also understood that in a telephone conversation this afternoon with Chairman Eccles, who was in Utah, Mr. Clayton would tell him (1) that the members of the Board would appreciate it if, while he was in the west, he would attempt to find someone in the Twelfth Federal Reserve District who would make a desirable appointee by the Board as a Class C director of the Federal Reserve Bank of San Francisco, and (2) that in view of the absence from the country of Mr. Grady, Chairman of the Bank, the Board would like him (Chairman Eccles) to ascertain from Henry A. Dixon, President of Weber College, Ogden, Utah, whether he would be willing to accept appointment as a director of the Salt Lake City Branch of the San Francisco Bank for a term of two years beginning January 1, 1944.

Under date of December 9, 1943, the Board received a letter from Mr. Leach, President of the Federal Reserve Bank of Richmond, with which he submitted a copy of a resolution adopted by the board of directors of the Bank authorizing, subject to the approval of the Board of Governors,

-7-

12/28/43

the purchase for \$10,000 of a lot adjoining the lot on which the Charlotte Branch building now stands. The letter stated that, while it was not contemplated that the Branch building would be enlarged under present conditions, the growth of business indicated that it might be desirable to enlarge it at some future time, and that it seemed advisable to the directors to purchase the lot referred to, assuming that an examination of the title showed that the present alley between the Branch property and the lot proposed to be acquired could be closed. The letter also stated that Mr. Lassiter, Chairman of the Richmond Bank who was a resident of Charlotte and familiar with the value of property in that city, had considered the proposed purchase and felt that the step was advisable and that the price was reasonable.

The proposed purchase had been discussed informally by the members of the Board, following which Mr. Smead discussed the matter over the telephone with Mr. Leach, and at this meeting Mr. Szymczak said that the directors felt that the purchase would be an exceedingly favorable one for the Bank and that steps had been taken to obtain an independent appraisal of the value of the land. Mr. Smead stated that the directors of the Charlotte Branch felt that the property was very desirable, and that it should be purchased as a protection to the Branch building and to avoid its falling into the hands of a speculative purchaser who might demand a speculative price in the event the Bank

-8-

12/28/43

desired to acquire it at some subsequent time.

Upon motion by Mr. Szymczak, the Secretary was requested to advise Mr. Leach in response to his letter of December 9, 1943, that, on the assumption that before the purchase was consummated the Federal Reserve Bank would obtain an independent appraisal of the value of the property, the Board of Governors would interpose no objection to the proposed purchase.

Mr. Szymczak then presented a memorandum addressed to him under date of December 27, 1943, by Mr. Gardner, Senior Economist in the Division of Research and Statistics, and reading as follows with respect to Federal Reserve participation in the program for training Latin Americans in banking:

"The purpose of this memorandum is to ascertain whether the Board is prepared to continue its cooperation with the Inter-American Training Administration in developing promising young Latin Americans in the field of central banking and finance. Latin Americans have come to us under two types of arrangement. Some have come on banking missions, the expenses of which are paid by various agencies. Others are here as apprentices or trainees, who are paid a beginner's wage by the organization with which they work. Mr. Gonzalez of Paraguay is an example of the first type. His work here resulted in the mission of Messrs. Hammond and Triffin to Paraguay. Mr. Tejada of Bolivia is an example of the second type. He has had a year of commercial bank training in St. Louis, and he is now working in our Division of Research and Statistics at a basic salary of \$150 a month.

"There are three more possibilities at the present time. One is a Mr. Fernandes of Brazil. He spent his first three months in the United States at the Treasury where he made an exceptionally good impression. He then went to the Chase National Bank for a period of 14 months and continued his good work. He is now about to go to the Federal Reserve Bank of New York for training in central

12/28/43

-9-

"banking procedures. He will then be ready to come to the Board. Brazil is preparing to undertake a program for modernizing its central bank and if, as seems likely, the Board is called upon for assistance, we shall be faced with the biggest job we have yet undertaken in Latin America. The Brazilian material is difficult to assemble and we could use Mr. Fernandes effectively in a study of money and banking in Brazil, which would be a contribution to our work, familiarize him with our technique, and give him some insight into the functions of a financial system as a whole. Mr. Fernandes should finish his training with the Federal Reserve Bank of New York about the middle of March. Would the Board be agreeable to his spending the remainder of his time in this country (i.e. through the first week of June) in the Division of Research and Statistics at a salary of about \$150 a month?

"The two others who are in prospect are Hondurans. The idea of bringing them here developed out of the financial mission to Honduras last summer, of which Mr. Triffin of the Board's staff was a member. The mission has recently sent its report to the Honduran Government recommending the establishment of a central bank in that country. The lack of adequately trained personnel in Honduras constitutes one of the greatest handicaps to such an institution. The mission came in contact with two men whom it regards as promising material, but who would need further technical training. Before approaching the Inter-American Training Administration on the subject of bringing these men to the United States for such training, we should like to ascertain whether the Board would be prepared to participate in the program. The men should probably spend about a year in this country, partly with other Government agencies, but mostly with the Federal Reserve Banks and the Board of Governors. Arrangements could probably be made for them to come as appointees under the training program. In this case the Board of Governors would be expected to pay a salary of about \$150 a month to each of them while they are serving at the Board. This is what we are now doing in the case of Mr. Tejada. A more flexible and a more suitable arrangement, however, would be to have them come as a mission without the necessity of having to arrange for formal employment in each of the agencies with which they will come in contact. A mission can be financed in several ways. There are funds available for the purpose in the

12/28/43

-10-

"State Department, the Treasury Department, and the Office of the Coordinator of Inter-American Affairs; and in some instances a sharing arrangement can be worked out with the foreign institutions from which the men are drawn. If the Board of Governors is suggesting that the men be brought here, however, the Training Administration may well raise the question whether the Board itself has funds available for the purpose. While it would be possible for us to answer in the negative, necessitating procurement of the funds elsewhere, the Board may wish to consider at this time what its policy should be with regard to financing such a mission.

"One of the Hondurans is Virgilio Galvez, an official in the Honduran Treasury Department. He is capable and extremely influential in administration circles in Honduras. While the Honduran Treasury is charged with bank examinations, it is doing hardly anything with it -- largely because of lack of technical competence. It would appear worth while to bring Mr. Galvez to the United States for further training even if the Honduran Government fails to establish a central bank.

"The other Honduran is Modesto Padilla Mejia, manager of a branch of the Banco Atlantida. He, too, is capable and in need of further training. His appointment, however, should be considered only if Honduras decides to set up a central bank and additional specially trained personnel is necessary in this connection. It was the mission's understanding that Padilla Mejia would probably be appointed by the Government as General Manager of the Central Bank. His record, both in Government service and in the Banco Atlantida, appears to be outstanding."

All of the members of the Board present expressed agreement with the opinion that the Board should continue its participation in the training program referred to in the memorandum, and Mr. McKee suggested that any appointments of Latin Americans made by the Board to its staff should be on a temporary six months' basis so that the matter could be reviewed periodically.

12/28/43

-11-

This suggestion was agreed to, and Mr. Szymczak moved that the Board indicate its willingness to participate in the program either through helping to defray the expenses of banking missions from Latin American countries or through the temporary addition of apprentices or trainees to the Board's staff, it being understood that, regardless of the form of the Board's participation, the arrangements made in individual cases would provide for the payment of expenses or salary for specified periods of not to exceed six months and that the arrangements would be subject to review by the Board at the end of that time.

This motion was put by the chair and carried unanimously.

At this point Messrs. Thurston, Smead, Parry, Dreibelbis, and Wyatt withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 27, 1943, were approved unanimously.

Memoranda dated December 20, 1943, from Mr. Paulger, Chief of the Division of Examinations, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective January 1, 1944:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Arthur H. Lang	Federal Reserve Examiner	\$3,600	\$4,000
James C. Smith	Federal Reserve Examiner	3,600	4,000
Karl P. Wendt	Asst. Federal Reserve Examiner	3,000	3,300
Carl V. Adams	Asst. Federal Reserve Examiner	3,000	3,200

12/28/43

-12-

<u>Name</u> (Continued)	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Charles E. Fischer	Asst. Federal Reserve Examiner	\$2,700	\$3,000
John N. Kiley, Jr.	Asst. Federal Reserve Examiner	2,900	3,000
Charles Eaton	Asst. Federal Reserve Examiner	2,600	2,800
Adolphus D. Wilburn	Asst. Federal Reserve Examiner	2,100	2,300
Marion E. Wright	Asst. Federal Reserve Examiner	2,100	2,300

Approved unanimously.

Memorandum dated December 22, 1943, from Mr. Morrill, recommending that the basic salary of Miss Edna B. Poeppel, Supervisor of the Files Section in the Secretary's Office, be increased from \$3,200 to \$3,500 per annum, effective January 1, 1944.

Approved unanimously.

Memorandum of this date from Mr. Morrill submitting the resignation of Mrs. Sarah B. Murphy as secretary to Mr. Carpenter, to become effective as of the close of business on December 31, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum of this date from Mr. Morrill, submitting the resignation of Mrs. Dorothy Jeane Horning as a stenographer in the Secretary's Office, to become effective as of the close of business on January 3, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

12/28/43

-13-

"In accordance with the request contained in your letter of December 20, 1943, the Board approves the appointments, effective January 1, 1944, of George R. Wilkinson and H. A. Brockhouse as examiners for the Federal Reserve Bank of Kansas City."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the recommendation contained in Mr. Diercks' letter of December 24, 1943, the Board extends to January 15, 1944, the time within which the Peoples Savings Bank, Port Huron, Michigan, may accomplish membership in the System."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Ronald Ransom
Vice Chairman.