

A meeting of the Board of Governors of the Federal Reserve System with members of the executive committee of the Federal Advisory Council was held in Washington on Wednesday, January 5, 1944, at 11:35 a.m.

PRESENT: Mr. Ransom, Vice Chairman
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. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel
Mr. Berntson, Clerk in the Secretary's Office

Messrs. Brown, Kurtz, and Fleming, members of the executive committee of the Federal Advisory Council

Mr. Lichtenstein, Secretary of the Federal Advisory Council

Mr. Brown stated that Mr. Harrison was ill and that Messrs. Spencer and Huntington were unable to attend this meeting because of other engagements.

In response to a statement by Mr. Brown that the members of the executive committee would like to know what had taken place during the recent hearings before one of the Banking and Currency Committees

1/5/44

-2-

of Congress on the subject of the absorption of exchange and collection charges, Mr. Ransom stated that the hearings before the House Banking and Currency Committee had been arranged on the initiative of Congressman Spence, the new Chairman of the Committee, and that he (Mr. Ransom) and Messrs. McKee and Dreibelbis, as representatives of the Board, had appeared at the hearings at the request of Chairman Spence who had also called Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, and Mr. Delano, Comptroller of the Currency, to testify. Messrs. Ransom and McKee then reviewed in some detail what had occurred during the sessions of the hearings which were held prior to adjournment of Congress, and Mr. Ransom said that it was Chairman Spence's intention to resume the hearings after the Congress reconvened and to invite bankers who had asked to be heard and possibly representatives of the American Bankers Association, the Reserve City Bankers Association, the Independent Bankers Association, and several State bankers associations to testify. He also stated that during the course of the hearing Congressman Brown had questioned the statement that the Board had been urged by bankers including the Federal Advisory Council to enforce the law and had asked that there be put into the record a list of the names of the bankers that had taken that position. In response to this request, Mr. Ransom said, a list of names had been prepared, the position of the members of the Federal Advisory Council as shown by the Board's records had been carefully reviewed, and he had had a statement prepared that

1/5/44

-3-

set out the position of the Council which he might request the Council at the appropriate time to place in the record as a statement of its position. Mr. Ransom handed a copy of the statement to Mr. Lichtenstein as Secretary of the Council.

Later in the meeting Mr. Fleming stated that he would have no objection to putting the statement in the record.

Mr. Brown stated that he would like to have an opportunity to go over the statement with Mr. Lichtenstein, and that the attitude of the members of the Federal Advisory Council had been that, while some of them questioned the policy of prohibiting the payment of interest (he personally had been opposed to it), the law had been passed and had been interpreted by the Board, and that it was up to the Board to enforce it so that the question could be appealed to the courts, if necessary, and settled that way.

During the above discussion Mr. Szymczak, who had been delayed by another appointment, joined the meeting.

Mr. Ransom referred to the garbled reports of the hearings before the House Banking and Currency Committee that had appeared in the American Banker and to the effect that these reports had had on some banks in causing them to defer the effective date of action which they had taken to discontinue the absorption of exchange and collection charges, and stated that it might be desirable for Mr. Brown to express the official view of the Council on the matter, that representatives of the American Bankers Association and other groups should enter the

1/5/44

-4-

discussion and express their views as to the merits of the Board's position, and that it was definitely his opinion that bank support of the Board's position was advisable if bankers were interested in not having the law repealed or weakened.

Mr. Brown stated that he thought such support should be given. He also said that the executive committee of the Federal Advisory Council was particularly interested in knowing whether the position of the Board would remain unchanged by what had occurred in the Committee hearings, and Mr. Ransom replied that the Board had no choice but to adhere to the position taken in its September ruling.

In a discussion of the question whether the law might be amended to permit the absorption of exchange and collection charges, Messrs. McKee and Ransom expressed the opinion that that should not be done and Mr. Ransom felt that the suggestion that it be repealed should not be made at this time.

Mr. Fleming referred to the number of letters his bank had received from correspondent banks indicating that they would no longer absorb exchange and collection charges and stated that he felt that, if the thing were left to work itself out, there would be only one or two banks that would not fall in line.

Mr. Brown stated that members of the Council had heard that the Board had prepared a draft of bill with respect to group and branch banking which had been submitted to other Government agencies and which the Board was considering presenting to Congress, and he inquired whether,

1/5/44

-5-

if that were so, a copy of the proposed bill or an outline was available for consideration by the Council.

Mr. McKee indicated that a tentative draft of a bill with respect to the supervision of bank holding companies had been prepared and submitted to the Comptroller of the Currency and the Federal Deposit Insurance Corporation, but that it did not deal with the subject of branch or group banking.

Mr. Brown said that this was a matter of great concern to large sections of the country and inquired whether the draft of proposed bill had been agreed to by the Board.

Mr. McKee stated that it was a bill with which he was satisfied and which he thought would be satisfactory to the Federal Advisory Council. In response to a question by Mr. Brown whether the Board would be willing to let the members of the Council have copies of the bill, Mr. McKee said he did not feel it had yet reached the stage where copies could be made available.

Mr. Ransom explained that the procedure for clearing legislation before it became official as far as the Administration was concerned was through the Bureau of the Budget, that he had not been informed that the proposed bill had been cleared by the Bureau, and that, regardless of its merits, he felt it should be cleared before being circulated outside the agencies of Government concerned. He also said that the Board was not attempting to avoid what he regarded as a proper request from the

1/5/44

-6-

Council, but that there was a question whether the bill should be given out before it was cleared as an Administration measure, and that, if the Council wished to make a formal request for copies, he would rather have the decision on the matter made by the Board after consideration of that question than to undertake to decide it at this time.

Mr. Kurtz expressed the opinion that if the proposal represented legislation that would affect a considerable segment of the banking system the Council was obliged to request copies of the bill, and Mr. Fleming indicated that he would dislike very much to see a situation develop similar to that in 1935 when banking legislation was introduced into Congress about which the Council knew nothing beforehand.

Mr. Brown said that it was his understanding that the preamble to the proposed bill contained the statement that banks were engaged in interstate commerce, that, if this were true, it would seriously embarrass the banks in a controversy which they were having with the National Labor Relations Board involving that question, and that it would be a mistake for the bill to be introduced without the Council having had an opportunity to point out some of the dangers and possible implications of the proposed legislation.

After some further discussion, Mr. Brown said that since three members of the executive committee were absent he would hesitate to have the three members present request a copy of the bill, but that at the

1/5/44

-7-

next meeting of the Federal Advisory Council on February 13, 1944, he would urge the Council to make a formal request of the Board for a copy. He also said that if there were any likelihood that the bill would be introduced within the next month the members of the Council should have an opportunity to see it and discuss it.

Mr. Brown then referred to the two letters which had been received by the Board in reply to its letter of December 7, 1943, to the Smaller War Plants Corporation with which was transmitted the statement adopted by the executive committee of the Federal Advisory Council at its meeting on December 7, 1943, with respect to the plans of the Smaller War Plants Corporation to make fully guaranteed loans of up to \$25,000, with an interest rate of 4 per cent and without review from Washington, to concerns engaged in either war or essential civilian work. He said that the members of the executive committee present did not feel that the letters were an adequate answer to the questions raised in the Council's statement but that it had been decided to wait until the next full meeting of the Council on February 13 before taking any further action with respect to publishing the Council statement.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

Ronald Ransom
Vice Chairman.