

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 7, 1944, at 4:30 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
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. Paulger, Chief of the Division of
Examinations
Mr. Dreibelbis, General Attorney
Mr. Wyatt, General Counsel
Mr. Sloan, Federal Reserve Examiner

Mr. Ransom stated that following the meeting of the Board yesterday, at which reference was made to action proposed to be taken by the American Trust Company of Charlotte, North Carolina, to abandon its decision to discontinue the absorption of exchange and collection charges, Mr. Leach, President of the Federal Reserve Bank of Richmond, called on the telephone and stated that he had been informed that, upon the advice of the largest depositor of the trust company, Mr. Wood, chairman of the company, had withheld sending a proposed telegram to its correspondents to inform them that it would continue the practice of absorbing exchange and collection charges, and that in the opinion of Mr. Leach, if no further action were taken at the present time, the situation would work itself out. Mr. Ransom also said that Mr. Leach

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promised to call immediately in the event such a telegram were sent out by Mr. Wood.

Mr. Ransom went on to say that this morning he received a letter dated January 5, 1944, from Mr. Wood enclosing a copy of a letter which the latter had addressed to Congressman Spence, Chairman of the House Banking and Currency Committee, under date of January 3, 1944, in which the suggestion was made that the law be amended to permit member banks to absorb exchange charges in an amount equivalent to one-half "of the interest that member banks may pay on time deposits payable any time within 90 days, subject to 30 days' written notice". At Mr. Ransom's request, Mr. Dreibelbis read the letter from Mr. Wood and its enclosure, and Mr. Ransom stated that he had discussed the matter with Messrs. McKee and Dreibelbis this morning, that there was agreement on their part that a prompt reply should be made to the letter, and that Mr. Dreibelbis had prepared a draft of reply for consideration at this meeting. The statement was also made that Mr. Draper favored a prompt handling of the matter. The draft of reply, which had been prepared for Mr. Ransom's signature, was read by Mr. Dreibelbis, and in the ensuing discussion it was suggested that the draft be revised in certain respects.

At the conclusion of the discussion, the reply was approved unanimously as follows, with the understanding that it would be sent as promptly as possible and that

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Mr. Ransom, who had an appointment to see Congressman Spence tomorrow morning at 10:00 o'clock, at that time would hand the Congressman a copy of Mr. Wood's letter to Mr. Ransom together with a copy of the Board's reply:

"I have read with much interest your letter to me of January 5, 1944 and the enclosed copy of your letter of January 3, 1944 to Chairman Spence of the Committee on Banking and Currency, House of Representatives.

"Both letters suggest a modification of the existing statutes prohibiting the payment of interest upon demand deposits which would sanction a practice which you say has been followed by your bank for several years. The practice is described in more detail in the letter to me and, accordingly, my comments will be addressed to the contents of both letters.

"In your letter to me you state:

'I hope this will appeal to you as a basis for a settlement of this problem, and it certainly is a serious problem for us. We are quite sure we will lose many millions of deposits on account of being forced to charge back all exchange. For several years now, we have been charging back one half of the actual cost of exchange costs and allowing one per cent per annum for the absorption of the other one half of the exchange and overhead coverage. We have been doing this for about two years, but previous to that, we were absorbing more, and have been absorbing a certain amount ever since 1935. We have always made satisfactory profits; in fact, substantial profits, and we have never run an unsound bank and never expect to no matter what the competition may be. We were entirely satisfied to go on as we have been doing for the past two years, and could well afford to do so, and our customers were satisfied with this arrangement.

'We hope that some compromise can be reached and an adjustment made, because it is already tearing down a lot of business we have worked hard for many years to build up.'

"In short, your bank has been willing actually to pay one-half of the exchange charged by drawee banks up to an amount equal to one per centum per annum of the usable

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"balance kept with your bank by correspondent banks and other customers. You state that in former years you were willing to pay out even more for the use of such balances and it is clear from your letter that this inducement has resulted in the acquisition of an extremely large amount of balances from customers availing themselves of the offer. This is indicated also by the following table showing, in round figures, the deposit trend of your bank for the year 1935 and succeeding years:

	<u>Individual Demand Deposits</u>	<u>Correspondent Bank Balances</u>
1935	11,000,000	30,500,000
1936	12,000,000	38,000,000
1937	11,500,000	34,000,000
1938	12,000,000	41,000,000
1939	16,000,000	58,000,000
1940	19,500,000	64,500,000
1941	29,000,000	80,000,000
1942	32,000,000	90,000,000
1943	38,000,000	90,000,000

"I do not know how much in absorbed exchange charges your bank has paid out as a result of the practice but the amount must run into very large figures. In any event it has resulted in a satisfactory 'arrangement' between the bank and its customers under which payments are made as an inducement or reward for the use of the balances kept with your bank. I am firmly convinced that the courts would construe such payments as constituting payments of interest. I mention this merely to emphasize and repeat what I have heretofore said, that is, that the Board of Governors has not undertaken in its Regulation Q to exercise any authority to define the term 'interest' beyond the meaning given to it by the courts. The question as to whether or not your bank, by its practices, violates the law would remain even if the Board's Regulation Q were repealed or had never been issued.

"As I have already stated, the modification to the existing law which you suggest would merely legalize the practice of your bank which you have described. Under such an amendment to the law, a bank could pay in absorbed exchange charges (but only in such manner) one-half of one per centum on net collected balances. Whatever name anyone might give such a transaction, I think that you must admit that the effect would be that of paying interest. You apparently recognize this by your reference to the fact that this (meaning the one-half of one per centum 'would be one-half of the interest that member banks

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"may pay on time deposits, payable at any time within 90 days, subject to 30 days' written notice.' Also, it is significant that under your suggested modification the rate to be paid in absorbed exchange charges would be tied to the rate on time deposits and would be changed as the maximum permissible rate on the latter might from time to time be changed by the Board.

"During the hearings which have been in progress I have stated a number of times that, in my opinion, the enactment of the statute prohibiting the payment of interest upon demand deposits represented wise and beneficial legislation. I for one would not favor legislation designed to change the existing law so as to permit banks to accomplish the same end under another name and then only for an extremely limited and favored class. This, I think, would be the effect of your suggested modification. Considering the inequities which would follow if your suggestion should be adopted, I would think that Congress, if it should be faced with these alternatives, might consider rather the advisability of doing as you also suggest, that is 'to get rid of the whole law passed by Congress about Regulation Q,' which I would like to say again I would regard as being extremely unwise.

"In view of its responsibilities, the Federal Reserve Bank of Richmond also is being furnished with copies of this correspondence."

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

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, 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

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Bank of St. Louis, Mr. Ziemer, 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 Banks of St. Louis and San Francisco on January 4, by the Federal Reserve Bank of Atlanta on January 5, by the Federal Reserve Banks of New York, Philadelphia, Richmond, Chicago, Minneapolis, Dallas, and San Francisco on January 6, 1944, 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 30, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending, with the concurrence of Mr. Goldenweiser, Director of the Division, and in accordance with the action taken at the meeting of the Board on November 24, 1943, that Alexander Gerschenkron be appointed as an Economic Specialist in that Division on a temporary basis for a period of not to exceed one year, with basic salary at the rate of \$4,800 per annum, with the understanding that he will not become a member of the Federal Reserve retirement system.

Approved unanimously, effective as of the date upon which Mr. Gerschenkron enters upon the performance of his duties after having passed satisfactorily the usual physical examination and subject to a satisfactory report from the Federal Bureau of Investigation.

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Memorandum dated January 5, 1944, from Mr. Paulger, Chief of the Division of Examinations, submitting the resignation of Mrs. Adele Koenig as a stenographer in that Division, to become effective as of the close of business on January 15, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Boston, involving the establishment of four positions, as submitted with your letter of December 21, 1943."

Approved unanimously.

Letter to the board of directors of the "Citizens State Bank", Lyndonville, New York, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$2,132, as shown in the report of examination of such bank as of November 9, 1943, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, together with a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

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"The Board of Governors of the Federal Reserve System approves the application of the 'Citizens State Bank', Lyndonville, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York, for his information.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts mentioned on page 16 of the report of examination for membership."

Letter to the board of directors of the "State Bank of Newfane", Newfane, New York, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York.

Approved unanimously, for transmission through the Federal Reserve Bank of New York.

Telegram to Mr. Ruml, Federal Reserve Agent at the Federal Reserve Bank of New York, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "First Securities Corporation of Syracuse", Syracuse, New York, entitling such organization to vote the stock which it owns or controls of "The First National Bank of Canastota", Canastota,

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New York, the "Liverpool Bank", Liverpool, New York, and "The State Bank of Parish", Parish, New York, at any time prior to April 1, 1944, to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"For your information, there is enclosed a copy of a letter received by the Board from the United States Maritime Commission, dated January 1, 1944, with an extract from the minutes of a meeting of the Maritime Commission on October 1, 1943, regarding the election of Mr. A. J. Williams as Secretary of the Commission."

Approved unanimously.

Thereupon the meeting adjourned.

Brester Norrie
Secretary.

Approved:

Donald R. Mason
Vice Chairman.