

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, January 11, 1944, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. Draper  
Mr. Evans

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, 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 January 10, 1944, were approved unanimously.

Memorandum dated January 4, 1944, from Mr. Morrill, recommending that the basic salary of Samie Reed, a messenger in the Secretary's Office, be increased from \$1,320 to \$1,440 per annum, effective January 16, 1944.

Approved unanimously.

Memorandum dated January 10, 1944, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that Mrs. Florence Poundstone, a clerk in that Division, who was granted accrued and accumulated annual leave from December 6, 1943, through January 13, 1944, to join her husband who is in the service in Arizona, be

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granted leave without pay for the period January 14 through March 15, 1944, it being understood she will not make any contributions to the retirement system during her leave without pay.

Approved unanimously.

Memorandum of this date from Mr. Morrill, submitting the resignation of Fred Knauf as a guard in the Secretary's Office, to become effective as of the close of business on January 11, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"In accordance with the request contained in your letter of January 8, 1944, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Philadelphia:

|                       |                        |
|-----------------------|------------------------|
| Helen B. Kohler       | Beatrice A. Winton     |
| Olga B. Matuck        | Kathryn T. Dougherty   |
| Edith M. Salked       | Emma Duffy             |
| Norma B. Kline        | Agnes M. Fulford       |
| H. Jane Lucas         | Virginia M. Lilley     |
| Ethel F. Maguire      | Elizabeth M. Ricciardi |
| Bernice A. Manion     | Bernadetta E. Toner    |
| Evelyn F. Marriott    | Marcella P. Eells      |
| Marie H. McCullough   | Dorothy C. Green       |
| Marjorie D. McLeister | Mary McKenna           |
| Rosemary L. Monks     | Pauline V. McNamara    |
| Mildred E. Mueller    | Margaret M. O'Rourke   |
| Mary A. Stopper       | Margaret G. Schaum     |
| Frances H. Welsh      | Jane R. Layton"        |

Approved unanimously.

Letter to Mr. Sheehan, Manager of the Bank Examinations Department of the Federal Reserve Bank of New York, reading as follows:

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"This refers to your letter of November 23, 1943, informing us that during a recent examination of the trust department of the Danbury National Bank, Danbury, Connecticut, the national bank examiner pointed out that the trust powers granted under date of March 7, 1919, were limited as the certificate issued by the Board named only the eight specific powers mentioned in section 11(k) of the Federal Reserve Act.

"From an inspection of the Board's records, it appears that the bank applied for permission to exercise only the eight specific powers and did not apply for the ninth or general power, but on March 8, 1919, the Federal Reserve Agent at New York was requested to advise the national bank that the Board had approved its application to act in certain enumerated trust capacities 'or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Connecticut'. However, as is stated by the national bank, the actual certificate subsequently issued by the Board contained only the eight specific powers. In this connection, it is noted that the Board's annual report for 1919 listed this national bank as having the ninth power and the bank has been carried on the Board's records ever since as having authority to exercise that power. In the circumstances, it is apparent that there is a conflict in the records of the Board as to the powers granted to the bank, and in order to avoid any question in the future as to whether it has received the ninth power, the bank may wish to file an application for such power."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to Honorable Lex Green, House of Representatives, reading as follows:

"With your letter of January 3, 1944, you sent me a letter from Mr. S. B. Hardee, President, Farmers & Merchants Bank of Trenton, Trenton, Florida, regarding the recent ruling of the Board of Governors relating to the payment of interest on demand deposits through the absorption of exchange charges. I am returning herewith Mr. Hardee's letter.

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"Mr. Hardee is evidently under a misapprehension as to the purpose of the Board's ruling. It grew out of the fact that some time ago the Board of Governors was presented with a question as to whether the practice disclosed by examination of a certain member bank which had been absorbing exchange and collection charges was a violation of a provision of law prohibiting the payment by member banks of interest on demand deposits, directly or indirectly, with respect to which the Board is charged with certain regulatory responsibilities under the Federal Reserve Act. Before responding to the request and after long and careful consideration, the Board submitted on August 6, 1943 to Chairman Steagall of the House Banking and Currency Committee and Chairman Wagner of the Senate Banking and Currency Committee a draft of a letter to be dated August 23, 1943, containing the ruling which had been prepared in accordance with the advice of counsel. Receiving no comments or criticisms from the respective Chairmen, the Board issued the ruling on August 23 and it was published on September 13, 1943 in the Federal Reserve Bulletin. The bank to which the ruling applied and other banks in the same community promptly announced their intention to comply. The correctness of the Board's interpretation has been accepted by the bank to which it applied and has not been contested in the Courts. Many other banks have since then admitted similar practices and have announced their discontinuance.

"For your further use in responding to Mr. Hardee you will find enclosed a mimeographed copy of a statement which we use in replying to inquiries regarding this matter, together with mimeographed copies of the letter of August 6 to Congressman Steagall (the letter to Senator Wagner being substantially the same), and of the ruling which was published in the Federal Reserve Bulletin.

"You will see, and I trust that Mr. Hardee will also appreciate, from reading the enclosed information, that the Board's action was simply a statement of the law as applied to a particular practice brought to its attention by the appropriate supervisory authority on the basis of examination of the bank which had been following the practice. The Board, of course, would expect that any member bank that was following a similar practice would make such adjustments as might be necessary in order to conform to

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"the law.

"In connection with Mr. Hardee's bank, I have been interested to note that in June, 1943, an amount equal to more than one-half of the total deposits of his bank was carried as balances with correspondent banks. If these banks are absorbing exchange as compensation to Mr. Hardee's bank for the use of these balances, it is reasonable to think they are doing so because they can loan or invest the money at a profit in excess of the cost of the exchange. It would therefore seem that Mr. Hardee's bank could also make profitable use of these balances through a definite and constructive loan and investment policy which would yield at least as great an income to his bank as could be obtained from the absorption of the exchange by his correspondent banks."

Approved unanimously, together with  
the following letter to Mr. Turman, Coun-  
sel of the Federal Reserve Bank of Atlanta:

"This will acknowledge receipt of your letter of December 30 and the accompanying copies of pages 7 and 12-16 of the recently amended by-laws of the Jacksonville Clearing Association.

"It is observed, on comparing the amendments pertaining to exchange charges with the corresponding provisions in the by-laws on file at the Board's offices, that the Jacksonville banks have decided to charge their correspondent banks--at the flat rate of \$1.25 per \$1,000, minimum 10 cents--for exchange charges paid by Jacksonville banks on nonpar items. The new by-laws, like those previously in effect, apparently still permit members of the Association to waive exchange charges on nonpar items received for deposit to the credit of railroad companies, seven specified steamship companies, and public funds accounts.

"The question whether action in accordance with the amended by-laws would involve a payment of interest on demand deposits in violation of the law and the Board's Regulation Q is one which should, of course, be considered in connection with the examination of any particular bank, in accordance with the principles outlined in the Board's letter of October 13, 1943 (S-700)."

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

"The quarterly reports of enforcement activities under Regulation W prepared pursuant to the Board's letters S-612 and S-648 serve not only to keep the Board informed as to enforcement, but are apparently regarded as being of some value to the Banks themselves as a means of exchanging ideas and reviewing the results of their experience. Accordingly, it seems appropriate to inquire whether, in the light of your Bank's experience, there are any respects in which it appears that these reports can be improved and their usefulness increased. If your Bank has any suggestions along these lines, it will be appreciated if you will submit them for the Board's consideration."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 15, 1943, for printing of Federal Reserve notes of the 1934 Series in the amounts and denominations stated for the Federal Reserve Bank of St. Louis.

| Denomination | Number of sheets | Amount       |
|--------------|------------------|--------------|
| \$50         | 17,000           | \$10,200,000 |
| 500          | 1,700            | 10,200,000   |
| 1000         | 1,300            | 15,600,000"  |

Approved unanimously.

Thereupon the meeting adjourned.

Chester Mowbray  
Secretary.

Approved:

W. C. C. C.  
Chairman.