

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 13, 1944, at 10:30 a.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. 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. Dreibelbis, General Attorney  
 Mr. Vest, Assistant General Attorney  
 Mr. Wyatt, General Counsel

Mr. Ransom called attention to bill S. 1642, introduced in the Senate yesterday by Senator Maybank, which would amend section 19 of the Federal Reserve Act to provide that that section should not be deemed to prohibit the absorption of exchange or collection charges by member banks. Mr. Ransom stated that a similar bill was being introduced in the House by Congressman Paul Brown of the House Banking and Currency Committee and that hearings would undoubtedly be held on the bill. Mr. Ransom also distributed copies of charts which had been prepared at his request showing as of December 31, 1943, the distribution by States of par and nonpar banks.

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Mr. McKee read from a tabulation which he had had prepared to show how the absorption of exchange and collection charges by the American Trust Company of Charlotte, North Carolina, had resulted in abnormal increases in its deposit liability in comparison with banks in other cities of similar or larger size.

In connection with this matter, Mr. Ransom read the letter which he had received under date of January 10, 1944, from Mr. Wood, Chairman of the American Trust Company, in reply to the letter approved by the Board on January 7, 1944, and stated that he was sending Mr. Wood a personal reply, a draft of which he read.

Reference was then made to the statement made by Mr. Brown at the meeting of the Board with members of the executive committee of the Federal Advisory Council on January 5, 1944, that at the meeting of the Council on February 13, 1944, he would urge the Council to make a formal request of the Board for a copy of the draft of holding company bill which had been prepared in the Board's offices and 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 and discuss it.

Chairman Eccles expressed the opinion that it would not be appropriate at this time for the Board to comply with the request, that if the bill were given to the members of the Advisory Council it should also be sent to the Federal Reserve Banks, and that the bill should

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not be given such a circulation until it could be determined more definitely whether it would be introduced in Congress.

Mr. McKee referred to the comment by Mr. Brown that he understood that the preamble to the bill contained a statement that banking was interstate commerce, which might cause difficulties for the banks in their relations with the National Labor Relations Board involving that question, and Mr. Dreibelbis stated that the draft of bill had been changed to eliminate the specific reference to interstate commerce and to cover the point in another way.

At the conclusion of the discussion it was agreed that no decision should be reached at this time with respect to the Council's request for copies of the draft of bill and that the matter should be given further consideration in connection with the next meeting of the Federal Advisory Council in the light of developments during the interim with respect to the bill.

In the discussion of the status of the draft of holding company bill, there was read at Mr. McKee's request a letter dated January 10, 1944, from Mr. R. F. Hollister, Executive Manager of the Independent Bankers Association for the Twelfth Federal Reserve District, which referred to a copy of a bill which a representative of the Association had left with Mr. McKee with the statement on behalf of the Association that it "would not make any distribution of the bill other than to the

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"3 supervisory agencies without first obtaining their permission".

The letter stated that, while the Association's plans had not yet fully crystallized, it was quite probable that it might desire to use the bill as a means of bringing the regulation of bank holding companies before Congress, but that before doing so the Association would want the permission of the Board and that of other supervisory agencies, and that accordingly it would be appreciated if the Board would give its consent to further distribution of the bill.

Chairman Eccles suggested that the reply to Mr. Hollister's letter should be to the effect that the course to be followed by the Association was a matter for its own decision as the Board could not be in the position of consenting to the presentation of the bill proposed by the Association or suggesting that the bill be withheld.

With further reference to the status of the draft of the bill prepared in the Board's offices, Chairman Eccles stated that before he left for Utah on December 17, 1943, he discussed the matter with Under Secretary of the Treasury Bell, who had been unable previously to discuss it with Secretary Morgenthau because of the latter's absence in Africa and his occupation with plans for the fourth war loan drive, but that Mr. Bell did talk with the Secretary around the middle of December, at which time the latter stated that he did not want to take any position on the bill until he had had an opportunity to see the President. Chairman Eccles said that he requested Mr. Bell to

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tell the Secretary that when he discussed the matter with the President he (Chairman Eccles) would like to be present, and that that was where the matter stood at the present time. He added that in these circumstances he did not feel that he was at liberty to discuss the matter with the President unless Secretary Morgenthau was also present. He made the further statement that Congressman Patman had introduced a holding company bill but that he had done nothing about it, waiting to see what developed in connection with the draft of bill proposed by the Board, but that he would not be willing to continue to defer action indefinitely. Chairman Wagner of the Senate Banking and Currency Committee, Chairman Eccles said, had taken the same position as Secretary Morgenthau that he desired to discuss the matter with the President before doing anything about the bill.

There ensued a discussion of what, if anything, the Board might do in the circumstances, during which reference was made to the fact that the information being developed during the current investigation of Transamerica Corporation and its subsidiaries was furnishing an excellent argument for the position that the existing authority of the Board with respect to bank holding companies was entirely inadequate and that, if the public interest were to be protected, further legislation was absolutely necessary. During the discussion suggestions were made with respect to further conferences on the matter with Congressman Patman, Secretary Morgenthau, and the President, but

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no decision was made, the Board at its meeting on November 29, 1943, having authorized Messrs. Eccles and McKee to proceed to the completion of the clearance of the bill with the Bureau of the Budget and to take such other steps as they might deem necessary to bring about the introduction of the bill in Congress.

Before this meeting the attention of the members of the Board had been called to a draft of statement for the press with respect to the earnings and expenses of the Federal Reserve Banks during the year 1943 which had been prepared for release in accordance with the procedure that had been followed by the Board for several years, and at Mr. Ransom's request the matter had been placed on the docket for consideration at a meeting. Mr. Ransom stated that he favored the release of the statement but wanted to be sure that all of the members of the Board had had an opportunity to consider it.

Following a discussion and by unanimous vote, the release was authorized in the following form:

"Preliminary figures received from the Federal Reserve Banks indicate that during the year 1943 their current earnings amounted to \$69,306,000, which was \$16,643,000 more than in 1942. Current expenses were \$43,546,000 as compared with \$38,624,000 in 1942. After deducting noncurrent charges and adding profits on sales of Government securities, net earnings for the year amounted to \$49,528,000 compared with \$12,470,000 in 1942.

"The Federal Reserve Banks paid dividends of \$8,911,000 to their member banks and transferred their remaining net earnings to surplus accounts, reserves for contingencies, and to the U. S. Treasury as a payment under the provisions of Section 13b of the Federal Reserve Act relating to industrial advances."

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At this point Mr. Gardner, a Senior Economist in the Division of Research and Statistics, joined the meeting.

Mr. Szymczak stated that when Mr. Ransom was appearing before the House Banking and Currency Committee recently in connection with the absorption of exchange and collection charges by member banks Congressman Patman called attention to the bill (H.R. 3854) which he introduced on December 16, 1943, to amend the Federal Reserve Act for the purpose of authorizing participation by the United States in the establishment of a United Nations Bank for Reconstruction and Development and stated that hearings would be held on the bill and representatives of the Board asked to appear. Mr. Szymczak said that in view of this situation he had asked Mr. Gardner to prepare a statement with respect to developments in connection with the proposed international investment bank and that copies of a memorandum prepared by Mr. Gardner in response to this request were sent to the members of the Board under date of January 7, 1944. The memorandum suggested that if representatives of the Board were called upon to testify at the hearings the position might be taken that the Board regarded the revival of international investment as a major necessity in the postwar world, that, therefore, it was gratified by the sympathy evidenced in the Patman bill both for this viewpoint and for the particular proposal under consideration, but that the Board would regard it as premature to commit itself finally to this proposal which was still in the formative

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stage of technical analysis and on which the views of foreign technicians were still to be obtained. The memorandum also called attention to the fact that it would appear to be desirable for the Board at an early date to discuss the investment bank proposal and determine its attitude toward it so that the Board's staff would be in a position to exercise its influence in future conferences toward shaping a project at the technical level which would embody the Board's wishes.

All of the members of the Board were in agreement with the suggestion that, inasmuch as the discussions of the proposed stabilization plan and the international investment bank had been conducted on a technical level and no official position had been taken by policy-making officials, the Board should not take a position with respect to these matters at this time, but that the members of the staff working with the problems should continue to assemble the information that might be necessary to enable the Board to reach a decision with respect to its position within a reasonably short time, and that Mr. Szymczak should see that the Board was kept informed with respect to developments in connection with the whole matter.

With respect to when it might be necessary for the Board to take a position, Mr. Szymczak stated that it was expected that the Board's views as to the stabilization fund would be requested in the near future and that the Secretary of the Treasury would be ready to take a position shortly. Mr. Gardner said that the technicians were

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working on a statement of principles which it was expected would be completed within the course of the next month or so, that when it was finished the British representatives would determine whether they would be prepared to support the statement in Parliament as a basis for an international conference, that it would be necessary at that time for the appropriate officials in the United States to reach a decision whether this country was prepared to accept the statement as a basis for an international conference, and that if administrative approval were given in both cases the conference would be called to draft the necessary documents to carry out the statement of principles.

Thereupon the meeting recessed and reconvened with the same attendance as at the close of the morning session except that Mr. Gardner was not present.

At the meeting of the Chairmen's Conference in Washington on November 8, 1943, it was suggested that the next meeting of the Conference be held at Hot Springs, Virginia, on May 6 and 7, 1944, and Mr. Szymczak inquired whether this date was satisfactory to the Board.

All of the members present indicated approval of the proposed dates, Mr. Ransom suggesting, however, that the conference be held in Washington and that the Board consider the advisability of taking the position that no System conferences (not necessarily including staff conferences) should be held outside of Washington.

In this connection reference was made to the suggestion

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previously made that, as long as the meetings of the Federal Open Market Committee were required by law to be held in Washington, the meetings of the Presidents' Conference should also be held here, and the thought was expressed that if the Board agreed to a meeting of the Chairmen's Conference and the Board outside of Washington any position that the Board might take to the effect that the meetings of the Presidents' Conference should be held in Washington would be weakened. There was general agreement, however, that if the Chairmen of the Federal Reserve Banks should prefer to meet outside of Washington the members of the Board would be glad to meet with them provided the conference did not require their being absent from Washington longer than a Saturday and Sunday (it being understood that May 5 and 6 had been suggested), and that if the Chairmen should decide to meet in Washington the Board would be glad to meet with them at any time they might desire during the week of May 7. There was also agreement with the suggestion that the program for the conference should provide for morning sessions on two days, which would leave the afternoon of the first day free for informal discussions and conferences between the Chairmen and the members of the Board.

At the conclusion of the discussion, it was understood that Mr. Szymczak would discuss the date and program for the next Chairmen's Conference with Mr. Brainard, Chairman of the Chairmen's Conference, in the light of the suggestions made at this meeting.

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Mr. Ransom referred to a memorandum addressed to him under date of December 23, 1943, by Mr. Cherry, Attorney, with respect to bill H.R. 3873, the surplus property act of 1943, which provided for the disposition of surplus properties, as defined in the bill, which were owned or controlled by the United States. The memorandum had been circulated among the members of the Board before this meeting.

Mr. Ransom stated that when a memorandum of this kind was prepared and circulated among the members of the Board it was understood that, in the absence of a suggestion on the part of a member of the Board that the memorandum and accompanying bill be discussed at a meeting, the memorandum was filed and nothing further was done until the bill reached a stage where the Legal Division felt that it should again be brought to the attention of the Board. He said that he was mentioning the matter at this time so that there would be a clear understanding of the procedure, and that he would like to suggest that, in the future, memoranda of the kind referred to be not sent to the files until all of the members of the Board had had an opportunity to see it. He pointed out that this change in procedure would require that whenever a member of the Board was absent the memorandum would be held for his information upon his return and that in no case would the member be marked absent on the circulation form.

Mr. Ransom's suggestion was agreed to unanimously.

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Mr. Ransom then stated that Mr. Needham, General Counsel of the American Bankers Association, had informed him that numerous inquiries were being made of the Association as to whether anything was to be done to extend beyond June 16, 1944, the time for which loans made by member banks prior to June 16, 1933, to executive officers of the banks might be renewed or extended, and that Mr. Needham would like to have such information as the Board might have with respect to such loans.

It was stated that neither the Board nor the Federal Reserve Banks had obtained any statistical information with respect to the amount of such loans outstanding, that such information could be obtained only from the member banks, and that in the circumstances there was nothing in the Board's files that could be made available to the Association. During the discussion of this matter some of the members of the Board expressed the opinion that the time during which such loans might be outstanding should not be extended for a further period.

Chairman Eccles stated that arrangements had been made for a meeting on Monday, January 17, 1944, of the members of the subcommittee of the Joint Contract Termination Board on interim financing and of Mr. Hancock of that Board with representative bankers from various parts of the United States for a discussion primarily of a statement of policy on contract termination financing which had been prepared by the subcommittee. Chairman Eccles expressed the opinion that the

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program for the meeting did not appear to be at all comprehensive and said that it would be his suggestion that while the representatives of the banks were in Washington an opportunity should be afforded to discuss the whole problem of reconversion to peacetime operations, including not only financing of contract termination but also the financing of inventories, disposition of war plants and facilities, and the financing of civilian industry for peacetime production. He felt that, since the services had been the agencies that had contracted for the war plants and facilities and were familiar with their construction and operation, they should be the agencies responsible for negotiating and handling the disposition of the properties, and that legislation should be enacted which would remove any question with respect to the authority of these agencies (1) to sell the properties, either for cash without competitive bidding or on a time-payment basis, or (2) to guarantee loans made by financing institutions in connection with the purchase of such plants and facilities. He said that many of the properties could not be disposed of promptly on any other terms than long-time deferred payments at a low interest rate, and that provision should be made to permit the sale of these properties through the medium of guaranteed bank loans rather than to transfer them to a single designated Government agency, which would not be familiar with the properties, for disposition on the basis of long-term credit extended by the Government. He felt that an arrangement to finance

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contracts for the sale of the properties through the banks would have the advantage of (1) interposing the judgment of the bank as to the value of the facilities and getting the banks more directly into the lending field and in a position to supervise the loans rather than to have them supervised from Washington and (2) making the proceeds of the sales immediately available for use by the Government to reduce the Government debt at a time when such a reduction would be very desirable, with the result that banks would hold the guaranteed loans rather than Government securities.

Mr. McKee stated that, on the basis of his experience following the last war when many banks ran into difficulties with credits of this kind, he did not believe the banks should be expected to finance contracts for the sale of war plants and facilities for the reason that for the most part these sales of necessity would be long-term credits and it would be preferable for the Government to dispose of these capital assets on a long-term payment basis and have the purchasers look to the banks to finance their working-capital needs.

Mr. Ransom questioned whether it was sound for banks to place further dependence on Government guarantees rather than to assume the credit risk, and Chairman Eccles stated that if provision for guarantees were not made in cases where they were justified the Government, rather than the banks, would do the financing, which in his opinion would be an undesirable situation from the standpoint of the

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banks. He also referred to the question of modifying the provisions of section 13b of the Federal Reserve Act relating to industrial loans by the Federal Reserve Banks and stated that he would favor a change in the law which would make available to the Board the \$139,000,000, which the Secretary of the Treasury was authorized to pay to the Federal Reserve Banks under that section, for use under the direction of the Board as a basis for guaranteeing loans made by banking institutions to facilitate full production and employment.

Following a discussion of these various points, Chairman Eccles referred to the memorandum which he sent to Mr. Baruch, Director of the Advisory Board on War and Postwar Adjustment Policies, under date of December 16, 1943, as a statement of his views on the subject of financing terminated war contracts, the sale of Government-owned war plants and equipment, and the resumption of peacetime production, and stated that he would like to have the Board give general approval to that statement with such modifications as it might desire so that if an opportunity were afforded at the meeting on January 17 he could present the approved statement as the views of the Board.

Mr. Evans moved that the Chairman's memorandum be approved as a general statement of the Board's views.

In the discussion of this motion, it was stated that the members of the Board's War Loans Committee had been invited to attend the meeting

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on January 17 and that an opportunity would undoubtedly be presented for a statement of the Board's position on these matters.

Mr. McKee suggested that the meeting was not the proper place for an expression of the Board's views, but that Chairman Eccles should be free to express such personal opinions as he might see fit.

At the conclusion of the discussion, Mr. Evans' motion was put by the chair and carried, with the understanding that Chairman Eccles would be at liberty at the meeting on January 17 to present the memorandum as a general statement of the Board's views. On this action Mr. McKee voted "no".

At this point Messrs. Thurston, Smead, Dreibelbis, Vest, 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 January 11, 1944, were approved unanimously.

Bonds each in the amount of \$10,000, executed on January 6, 1944, by Mr. Robert Lassiter as Federal Reserve Agent and on January 5 by Messrs. Robert L. Shepherd and Terrice C. Gibson as Assistant Federal Reserve Agent and Alternate Assistant Federal Reserve Agent, respectively, at the Federal Reserve Bank of Richmond, and on December 31, 1943, by Messrs. Carl Schelling and W. R. Diercks as Assistant

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Federal Reserve Agent and Alternate Assistant Federal Reserve Agent, respectively, at the Federal Reserve Bank of Chicago.

Approved unanimously.

Memorandum dated January 10, 1944, from Mr. Clayton, requesting that Miss Mabel Goepfert, secretary to Mr. Wingfield, Assistant General Attorney who planned to leave the Board's employ on January 15, be transferred to his (Mr. Clayton's) office as secretary, effective January 17, 1944. The memorandum stated that the transfer was agreeable to both Mr. Dreibelbis, General Attorney, and Miss Goepfert.

Approved unanimously, with the understanding that there would be no change in her present basic salary at the rate of \$2,400 per annum.

Letter to Mr. Laning, Vice President and Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"In view of the circumstances described in your letter of January 5, 1944, the Board of Governors approves the continuation of the payment of salaries, for the period ending December 31, 1944, to Messrs. Howard Dennerle and John Hoy at the rates of \$3,000 and \$3,780 per annum, respectively, which are in excess of the maximum annual salaries provided in the personnel classification plan for the positions to which they have recently been transferred."

Approved unanimously.

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

"There is enclosed a copy of a letter received by the Board from Mr. H. G. Hamilton, Cashier, The Peoples Bank of Leslie, Leslie, Michigan, dated December 29, 1943,

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"regarding the question whether a proposed regulation of that bank involves a payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act.

"Under the proposed regulation of the bank, certain charges would be made against both depositors and nondepositors for cashing checks drawn on out-of-town banks, and to these charges would be added 'any charge at the point of collection'. A credit would be allowed against the prescribed charges, except charges made at the point of collection, at the rate of 10 cents for each full hundred dollars of the minimum balance during a particular calendar month in a particular account.

"It appears from the facts stated that a credit, based on the amount of a customer's account, would be allowed against charges made by the bank for certain services performed by it. Presumably, however, in no case would any payment be made to a customer or any credit be given him which would increase the amount of his deposit balance. It is noted that charges made 'at the point of collection', that is, exchange charges made by the drawee bank, would not be offset by the credit, and it is assumed that such exchange charges would be passed on to the customer.

"The case appears to be analogous to that considered by the Board in its letter of December 9, 1943 (S-713-a), regarding a practice of analyzing accounts for the purpose of determining the amount of service charges to be assessed against customers. Accordingly, as we understand the facts as presented in Mr. Hamilton's letter, it does not appear that the proposed regulation of The Peoples Bank of Leslie, Leslie, Michigan, would involve any payment of interest on demand deposits.

"It will be appreciated if your Bank will reply to Mr. Hamilton's letter in the light of the Board's ruling of December 9, 1943, and in accordance with the views above expressed."

Approved unanimously.

Letter to Mr. Wm. G. Walter, Vice President of Group 5, Mississippi State Bankers' Association, Morton, Mississippi, reading as follows:

"This is to acknowledge the receipt of your letter

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"of January 6 and the copy enclosed therewith of a resolution signed by a committee consisting of Mr. J. H. Sasser, of Carthage, Mississippi, Mr. D. T. Burnett, of Bay Springs, Mississippi, and Mr. O. B. Triplett, Jr., of Forest, Mississippi, in regard to the subject of absorption of remittance charges by city correspondents of country banks in Mississippi.

"It is believed from some of the expressions in the resolution that there is a misunderstanding as to the action taken by the Board of Governors, to which this resolution refers. The announcement referred to undoubtedly is the statement published in the Federal Reserve Bulletin of September 1943. 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 the provision of law contained in the Banking Acts of 1933 and 1935 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 law. The bank to which the ruling applied and other banks in the same community subsequently 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.

"In this connection, in view of your reference to Mr. J. T. Brown, it may be of interest to you to know that, in commenting upon this ruling by the Board, he said that 'from the facts stated we are inclined to agree with the Board's conclusion in so far as the particular bank is concerned' although he raised a question as to whether the ruling should apply to all cases regardless of circumstances.

"For your further information in this connection you will find enclosed a mimeographed copy of a statement which we use in replying to inquiries regarding this matter, and a copy of the statement published in the September 1943 Bulletin. From this information you will see that the Board's action was simply an interpretation 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

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"bank that was following a similar practice would make such adjustments as might be necessary in order to conform to the law. The point which we wish especially to bring to your attention in this connection is the fact that the Board's position is one taken not merely under Regulation Q, but under the terms of the Banking Acts of 1933 and 1935, which constitute the law governing this matter, and Regulation Q in this respect merely states what the Courts have held to be the applicable principle in determining what constitutes a payment of interest.

"I am bringing your resolution to the attention of the members of the Board of Governors."

Approved unanimously.

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

"For your information, there are enclosed copies of an opinion of the Attorney General of the United States dated January 4, 1944, given by him to the Secretary of the Navy, regarding the legality of certain types of contractual arrangements under Executive Order 9112."

Approved unanimously.

Letter dated January 12, 1944, to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your letter of January 4, 1944, and the copies of the consent closing agreements in connection with Consumers Home Equipment Co. Copies of the agreements are being sent to all the Federal Reserve Banks to which you have not already sent them, and copies of the Board's Order are being sent to all of the Banks. The Banks are also being furnished with the partial list of house-to-house canvasser organizations which was contained in your letter."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. C. ...  
Chairman.