

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 25, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
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

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 February 24, 1944, were approved unanimously.

Telegrams to Mr. Brome, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Clouse, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by those Banks on February 24, 1944, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum dated February 22, 1944, from Mr. Paulger, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, William B. Lassen be appointed as an Assistant Federal Reserve Examiner on a temporary basis for an indefinite period, with basic salary at the rate of \$2,600 per annum, and with official headquarters at Chicago, Illinois. The memorandum stated that the Federal Reserve Bank of Chicago, Mr. Lassen's present employer, was willing to release him to the Board for a couple of years, at the end of which he would be taken back by the Reserve Bank.

By unanimous vote, Mr. William B. Lassen was appointed on a temporary basis for an indefinite period as an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Chicago, Illinois, and with basic salary at the rate of \$2,600 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Letter prepared for the signature of Chairman Eccles to Mr.

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Lauchlin Currie, Deputy Administrator of the Foreign Economic Administration, reading as follows:

"In our conversation the other day, you said you were not interested in a further extension of your leave of absence without pay originally granted in July 1939 when you were appointed Administrative Assistant to the President. Consequently, your status as an employee of the Board has been terminated as of the close of business January 16, 1944, the expiration of the last extension of the leave of absence without pay.

"Our Division of Personnel Administration will forward to you the necessary forms for withdrawal of your contributions from the Federal Reserve Retirement System.

"While you have been away from the Board for several years serving as Assistant to the President, it is only now that you have become legally separated from this organization. This being so, it furnishes an occasion for expressing to you the high esteem in which you are held by the members of the Board, as well as by the entire organization. When you left to join the President's staff, it was a real loss to me because of the close working relationship I had had with you up to that time.

"Knowing your capacity, industry and personality as thoroughly as I do, I am confident that your future is a bright one. It will be a pleasure to follow your progress, and I trust you will find it convenient, as it will be to my liking, for you to keep in touch with me."

Approved unanimously.

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

"This refers to your letter of February 16, 1944, advising of the resignation of J. V. Kelly, an examiner for the Federal Reserve Bank of Dallas, and of the reemployment on a temporary basis of George R. Hallman, a former examiner for your Bank, who retired in 1941. It is understood that Mr. Hallman will devote the greater part of his time to the internal work of the Bank Examination Department but that you desire to use him as an examiner in special emergencies. It is also understood that if Examiner George I. Fetzner

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"should be drafted into the military service you may wish to replace him with Mr. Hallman.

"Although according to the Board's records Mr. Hallman's appointment as an examiner for the Federal Reserve Bank of Dallas was terminated upon his retirement as of April 30, 1941, the Board approves the reappointment of Mr. Hallman as an examiner for the Federal Reserve Bank of Dallas. However, in the circumstances, it will not be necessary to submit the usual statement as called for by the Board's letter of August 25, 1939 (F.R.L.S. #9181). It is assumed, of course, that Mr. Hallman has no indebtedness to banking institutions or outside business connections which may have an undesirable effect upon his service as an employee of the Federal Reserve Bank of Dallas.

"Please advise us of the date upon which the appointment becomes effective and the salary rate."

Approved unanimously.

Letter to the board of directors of the "Union State Bank of West Salem", West Salem, Wisconsin, 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 Minneapolis.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Union State Bank of West Salem', West Salem, Wisconsin, 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

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"to the Chairman, Banking Commission for the State of Wisconsin, for his information.

"It is assumed that you will follow the matter of the bank's reducing to within statutory limits the excess balance carried in a nonmember bank.

"The memorandum accompanying the application for membership states that in 1932 West Salem State Bank and LaCrosse County Bank merged under the charter of the latter bank and under the name of Union State Bank of West Salem, but no further information as to the nature and effect of the transaction has been furnished. It is assumed that this matter was considered by your counsel, and the application has been approved with the understanding that the merger had no effect on the corporate existence or powers of Union State Bank of West Salem."

Letter to the "Ypsilanti Savings Bank", Ypsilanti, Michigan, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to Mr. W. T. Triplett, Vice President of the Spokane and Eastern Branch of Seattle-First National Bank, Spokane, Washington, reading as follows:

"This is to acknowledge receipt of your very interesting letter of February 15, 1944, with respect to the subject of absorption of exchange charges. In accordance with the Board's practice in cases of this kind, your letter has been referred to the Federal Reserve Bank of San Francisco for reply.

"For reasons which you can readily understand, it is the policy of the Board not to rule on hypothetical cases or to express an opinion as to whether a particular practice

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"constitutes a payment of interest in the absence of a full statement of the facts and circumstances involved. The Board's ruling regarding absorption of exchange charges which was published in the September 1943 issue of the Federal Reserve Bulletin was based upon the facts presented to the Board in a specific case. It may be pointed out, however, that that case was not one in which exchange charges were absorbed in small or inconsequential amounts without reference to balances or in which the cost of collecting the exchange would have been greater than the amount absorbed."

Approved unanimously, together with the following letter to Mr. Day, President of the Federal Reserve Bank of San Francisco:

"There is enclosed a copy of a letter which the Board has received from Mr. W. T. Triplett, Vice President of the Spokane and Eastern Branch of Seattle-First National Bank, Spokane, Washington, dated February 15, 1944, regarding absorption of exchange charges.

"It will be noted that Mr. Triplett's letter refers to the fact that his bank has absorbed 'small and inconsequential charges without reference to balances' and that it would cost the bank more to collect the exchange than it would to absorb it. As you know, it is the Board's position that the absorption of exchange charges constitutes a payment of interest only if it involves a payment to a depositor as compensation for the use of the funds constituting a deposit. The absorption of exchange in inconsequential amounts when the cost of collecting it would exceed the amount absorbed is quite a different matter from absorbing exchange as an indirect means of compensating or rewarding a customer for the use of his deposit; and it is possible that in such a case the circumstances might be such as to negative a payment of interest. In any such case, however, the question whether the practice involves a payment of interest in violation of the law and the Board's Regulation Q is one which must be determined on the basis of all the facts and circumstances involved in the particular case.

"It will be appreciated if your Bank will make appropriate reply to Mr. Triplett's letter in accordance with the views outlined above. For your information,

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"there is enclosed a copy of our letter to Mr. Triplett acknowledging his inquiry."

Letter to Mr. R. P. French, Executive Vice President of the Southern Bank and Trust Company, Richmond, Virginia, reading as follows:

"This will acknowledge and thank you for your letter of February 22, 1944, in which you ask that the Board give fullest consideration to the removal from Regulation W of the existing restrictions on the making of loans for the repair and maintenance of residential property.

"We have received a number of similar requests from cash-lenders, most of them supported by the same line of argument. In view of the anti-inflation purposes of the regulation, however, and the need for 'holding the line', the presumption would seem to be against the complete exemption of these loans at the present time. The whole matter is still under study, however, particularly with reference to the cases in which the 12-month limitation operates to cause 'undue hardship' -- not as measured by the standards of peacetime but as measured by the sterner standards appropriate to wartime. In connection with this study, the view presented in your letter will be given careful consideration.

"It is to be remembered, of course, that all extensions of consumer credit, for whatever purpose, tend to increase the inflationary pressures on the general price level, because they add credit-dollars to the already excessive spending power of the consuming public."

Approved unanimously.

Letter to Mr. Stephen A. Hefffield, Sr., Orlando, Florida, reading as follows:

"Your letter of February 1 to the President has been referred to the Board, since it is the Board's Regulation W, dealing with consumer credit, which limits the maturity of repair and modernization loans, for the time being, to a period of 12 months.

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"This regulation, along with many other measures, is a part of the President's program to combat inflation by restraining the upward pressure on the general price level that arises from consumer spending. The regulation relates to all the principal forms of consumer credit, including not only bank loans but also instalment sales and charge-account sales of a long list of consumers' durable goods. It is based in large part on the principle, with which we feel sure that you agree, that in wartime the general public interest is directly served by all those consumers who keep down their expenditures, postponing those which are postponable and using in any event as little credit as possible. This may mean in some cases that the consumer may need to draw on his accumulated savings, even though some of these may be in the form of Government bonds.

"In view of the nature and purposes of this regulation, as a wartime measure, it is not possible for the authorities, in particular cases, to make exceptions that are not provided for in the regulation itself. Whether any of these that are now included in the regulation would apply to your particular case, or what arrangements you might make to solve your problem within the general terms of the regulation, is a matter that could be determined only on the basis of a full knowledge of all the circumstances. If you should wish further assistance in exploring these possibilities, we suggest that you communicate with the Jacksonville Branch of the Federal Reserve Bank of Atlanta, which has charge of the administration of Regulation W in your State."

Approved unanimously.

Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of February 8, 1944, with enclosures, regarding a proposed amendment to the law which would permit nonmember national banks in Alaska and insular possessions of the United States to maintain a part of their required reserves with State member banks as well as with national banking associations.

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"This suggestion has been noted and you can be assured that consideration will be given to the desirability of such an amendment to the law whenever an opportune occasion presents itself. In this connection, as an alternative to the proposed amendment, it may be desirable to give some thought to the possibility of amending the law to require all national banks outside the continental United States to become members of the Federal Reserve System, in which event, of course, their reserves would be carried with the Federal Reserve Banks."

Approved unanimously.

Letter to Mr. Norman J. Wall, Head of the Division of Agricultural Finance, Bureau of Agricultural Economics, United States Department of Agriculture, reading as follows:

"In response to your letter of January 28, the Board will be glad to cooperate in the compilation of deposits, as of December 31, 1943, by States, and by size groups of cities in which the reporting banks are located.

"It is understood that if condition reports of national banks and State member banks are made available by the Comptroller of the Currency and the Board, respectively, the Federal Deposit Insurance Corporation will tabulate the data of all insured commercial banks for the confidential use of the Bureau of Agricultural Economics in its study of the 'Impact of the War on Financial Structure of Agriculture'.

"For this purpose the Board will make available to the Federal Deposit Insurance Corporation the reports of condition of State bank members of the Federal Reserve System as of December 31, 1943. A copy of this letter is being sent to Mr. Donald S. Thompson, Chief of the Division of Research and Statistics, Federal Deposit Insurance Corporation."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. Otto A. Case, State Treasurer and Chairman of the State Finance Committee,

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Olympia, Washington, reading as follows:

"This will acknowledge yours of February 11 with further reference to our correspondence relating to your suggestion for an amendment to the Federal Reserve Act which would permit States to borrow from the Federal Reserve Banks on the security of U. S. Government bonds.

"You now ask whether, if the amendment were restricted so as to apply only to loans for the purpose of replacing current funds, there would be any objection. You point out that by far the larger part of the investments made by the various States in U. S. securities have been made with their permanent funds so that the limited amendment you now suggest would not open a door to such a large potential of Federal Reserve Bank credit.

"While it is apparent that the suggested limitation would be less objectionable than the first suggestion you made, it would in principle run counter to the considerations mentioned in my previous letter. If such an amendment were introduced, the Board would feel obliged to point out to Congress the considerations against the proposal. On the other hand, I want you to know that so long as individuals and corporations are permitted to borrow from the Federal Reserve Banks on the security of U. S. Government obligations, I personally would not feel inclined to make any considerable issue of the matter.

"At any rate our exchange of letters has, I am sure, given each of us the opportunity of understanding better the viewpoint of the other."

Approved unanimously.

Thereupon the meeting adjourned.

Preston Murray
Secretary.

Approved:

W. C. C. C. C.

Chairman.