

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 14, 1944, at 11:00 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. 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 March 13, 1944, were approved unanimously.

Memorandum dated March 10, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Mary L. Carver be appointed as a clerk-typist in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination and subject to a satisfactory check of her references.

Approved unanimously.

Telegram to Mr. Will Howard Smith, Prattville, Alabama, reading as follows:

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"The Board of Governors of the Federal Reserve System has appointed you director of the Birmingham Branch of the Federal Reserve Bank of Atlanta for the unexpired portion of term ending December 31, 1945, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

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

"This refers to your letter of February 28, 1944, addressed to Mr. Paulger, requesting advice relative to the eligibility for purchase by member banks of 'when issued' securities.

"It is assumed that the agreement to purchase securities on a 'when issued' basis is not of the 'standby' type for the purpose of acquiring securities which may not be otherwise sold, and it is our understanding from your letter that no question is raised with respect to a case where a payment on account of the purchase is made by the member bank to a broker before the securities are actually acquired.

"Upon this basis, the Board is of the opinion that there is no legal objection to a member bank's committing itself to purchase securities at a later date when they are actually issued, provided such securities otherwise comply in all respects with the requirements of the law and the regulation of the Comptroller of the Currency on this subject.

"We have discussed this matter informally with representatives of the Comptroller's office, and it is understood that the conclusion stated is substantially in accord with the position of that office."

Approved unanimously.

Letter to the "Citizens Bank and Trust Company", Concord, North Carolina, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of Citizens

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"National Bank of Concord, Concord, North Carolina, the national bank into which the Citizens Bank and Trust Company, Concord, North Carolina, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, 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 North Carolina, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"After the conversion of the Citizens Bank and Trust Company into Citizens National Bank of Concord becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise trust powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Richmond for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

Approved unanimously.

Letter to Mr. Robert J. Kiesling, President of the Camden Trust Company, Camden, New Jersey, reading as follows:

"Your letter of February 21, 1944 refers to a practice which has been adopted by some lenders in making loans which they claim are exempt under section 8(a) of Regulation W (on the ground that they are 'secured by a bona fide first lien on improved real estate duly recorded'). Your inquiry is whether the Regulation is violated if the lender relies solely upon a statement by the borrower that the lien is a first lien or upon such a statement supported only by an ordinary credit agency report.

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"The penalties of the Regulation apply when a Registrant willfully or negligently makes an extension of credit which violates the Regulation, that is to say, an extension of credit which he knows or has reason to know does not comply. If an extension of credit based upon the above exemption in section 8(a) is not, in fact, secured by a first lien, the exemption is not applicable and the loan does not comply with the requirements of the Regulation. In such a case, the remaining question is whether the Registrant knew or had reason to know that the loan did not comply and whether the violation was willful or negligent.

"Obviously, if the Registrant knew that the loan was not a first lien, his failure to comply would be willful. The question whether negligence should be imputed to a Registrant would depend upon the usual test of what a person of ordinary intelligence would do under the same or similar circumstances.

"With specific reference to your inquiry, if a lender, relying upon a statement by the borrower or upon an ordinary credit agency report, was satisfied that the lien was a first lien, he would not be guilty of a willful or negligent violation of the Regulation provided he acted in good faith; but a lender would be guilty of a willful or negligent violation if he knew or had reason to know that he was not in fact acquiring a first lien or if the circumstances were such that an ordinary prudent man would not rely upon the statement of the borrower or the credit agency report."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morris
Secretary.

Approved:

W. Stables
Chairman.