

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 17, 1944, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
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 March 16, 1944, were approved unanimously.

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, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard, Stewart, and Hale, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on March 14, by the Federal Reserve Bank of Atlanta on March 15, by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on March 16, 1944, and by the Federal Reserve Bank of Boston today, of the rates of

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discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 14, 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, Lawrence H. Bugg be appointed on a temporary basis for an indefinite period as an Assistant Federal Reserve Examiner, with basic salary at the rate of \$2,100 per annum, and with official headquarters at Chicago, Illinois.

By unanimous vote, Mr. Lawrence H. Bugg 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 \$2,100 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.

Memorandum dated March 13, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, stating that at the close of 1943 Alfred Bettman, a Special Consultant in that Division,

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had not used 33 days and 3 hours of the 120 days' service authorized by the Board on June 23, 1942, and February 6, 1943, and recommending

(1) that the unexpended portion of \$1,668.75 of the total of the amounts authorized by the Board (representing salary at the rate of \$50 for each eight-hour work day) be made available for use during 1944 and

(2) that appropriate adjustment be made in the budget of the Division of Research and Statistics. The memorandum also stated that Alvin H. Hansen, Special Economic Adviser in that Division, felt that Mr. Bettman's work would be completed within the time already authorized by the Board.

Approved unanimously.

Memorandum dated March 16, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending (1) that the Board authorize the temporary assignment of Mr. Wesley C. Haraldson, Special Representative in the Bank Relations Department of the Federal Reserve Bank of New York, to the Board's Division of Research and Statistics for a period of approximately two months for work on the survey of bank deposits, effective as soon as he can be spared from his work at the Federal Reserve Bank of New York, probably sometime during the week of March 20, and (2) that the financial arrangements for this period be as follows:

- A. That the Federal Reserve Bank of New York pay and then be reimbursed by the Board for (a) Mr. Haraldson's salary payments, including both basic salary at the rate of \$4,000 per annum and overtime at the usual

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rate for Board employees (\$628.32 per annum for this salary level), (b) the Bank's contributions to the Federal Reserve retirement system in Mr. Haraldson's behalf, (c) a subsistence allowance at the rate of \$6 per calendar day while stationed away from the Bank, and (d) traveling expenses in accordance with the Bank's usual procedure for Mr. Haraldson's initial trip to Washington and his final return trip; and

- B. That the Board pay traveling expenses, in accordance with the Board's usual travel regulations, for any other official trip on which Mr. Haraldson may be sent while stationed at the Board.

Approved unanimously.

Memorandum dated March 15, 1944, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that, because of illness, the leave of absence without pay previously granted Mrs. Florence M. Poundstone, a clerk in that Division, be extended for the period March 16 through March 31, 1944, it being understood that she will not make any contributions to the retirement system during such leave without pay.

Approved unanimously.

Telegram to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, referring to the application of the "Union Bank of Winchester", Winchester, Virginia, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention

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to withdraw, and that, accordingly, upon surrender of the Federal Reserve Bank stock issued to the Union Bank of Winchester, the Federal Reserve Bank of Richmond is authorized to cancel such stock and make appropriate refund thereon.

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the South Main State Bank, Houston, Texas, became a member of the Federal Reserve System on March 15, 1944, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to Mr. Vergari, Head of Department, Consumer Credit, Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letters of March 2 and March 14, 1944 regarding a question which has been raised by

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"some small loan lenders in your district under section 12(b) of Regulation W. The question is illustrated by a case where a borrower who has an outstanding loan on which four monthly instalments of \$25 each remain unpaid, desires to borrow an additional \$100 for a purpose which is exempt under section 8(c). The lender is accepting a Statement of Necessity with respect to the balance outstanding on the old loan, and the question is whether he can schedule the consolidated loan of \$200 for repayment over a period of 18 months with monthly instalments of equal size throughout the 18 months.

"As you have pointed out, apportioning these uniform monthly payments to the two component parts of the consolidated loan shows that the old loan is to be repaid over a period of 12 months (the maximum permissible with a Statement of Necessity) and that thereafter the entire amount of the instalments will be devoted to the new exempt loan. Consequently, only a small part of the monthly payments will be devoted to the new loan during the first 12 months, with the result that payments on this part of the consolidated loan will be about three times as great for the last six months as for the first twelve months.

"The argument advanced by the small loan companies is that it has been their practice to combine such loans into one obligation and that by scheduling payments of uniform size, they are scheduling them 'in good faith' on the same basis as they would have in the absence of the Regulation.

"However, the Regulation does not permit them to schedule payments on the same basis as they would have 'in the absence of the Regulation' but provides that the terms 'shall be such as would result if the (consolidated) credit were divided into two or more parts and each part were treated in good faith as if it stood alone.' Therefore, if the Registrant would not, in good faith, have granted the terms described above on the new money if that part stood alone, the schedule of uniform payments on the consolidated obligation would not comply with section 12(b)."

Approved unanimously, with the understanding that a copy of the above letter would be sent to the Presidents of all the Federal Reserve Banks.

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Letter to Mr. Sproul, Vice Chairman of the Conference of Presidents, revised following consideration at the meeting of the Board on March 10, 1944, to read as follows:

"The Board has considered the three recommendations of the Conference of Presidents for modifications in the Retirement System which were presented orally at the joint meeting of the Presidents' Conference and the Board on February 29, and submitted formally with your letter of March 8, 1944. The following paragraph numbers refer to the proposals as listed in your letter.

"I. The Board concurs in the position taken by the Retirement Committee and the Presidents' Conference that it is impracticable to determine in advance upon a definite program for providing officers employed relatively late in life with larger retirement allowances than are available under the regular retirement provisions, and that any such provision should be in the form of a special benefit under the provisions of Section 9 of the Rules and Regulations of the Retirement System, with each case to be considered in the light of the particular circumstances. In this connection, it is assumed that special consideration will be given to the effect which any proposed special benefits would have upon the exemption of the Retirement System from Federal taxation.

"The Board will, of course, be ready to consider a formal proposal for provision of supplemental benefits in any case. The Board desires to point out, however, that it does not contemplate that supplemental benefits will be provided generally in cases of this kind. It expects, instead, that such benefits will be the exception rather than the rule, and that they will be proposed only in cases where it can be clearly shown that the supplemental benefits would be in the interest of the employing bank and, therefore, of the Federal Reserve System.

"II. The Board is in sympathy with the efforts of the Reserve Banks to further the Executive Development Plan and to obtain and retain executives of the greatest competence. The Board recognizes that the benefits of the Retirement System are a part of the compensation plan and thus an important factor in working towards that end. An increase from \$12,000 to \$15,000 in the maximum amount

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"of annual compensation available for computation of retirement benefits was approved by the Board last summer and the Board does not believe that a further increase is appropriate.

"The Presidents' Conference recommended the elimination or appropriate modification of the limitation of \$3,750 on the normal pension. The earliest at which this limitation can become effective is upon completion of 33-1/3 years' service and then only if the 'final average salary' is the maximum of \$15,000. As a practical matter, therefore, this limitation does not become effective in any case until 1947, and before that time the Board will be glad to give further consideration to its elimination or modification.

"III. In accordance with the recommendation of the Conference of Presidents for providing special retirement benefits for members involuntarily separated from service after age 55 and 25 years of service, the Board is authorizing the Reserve Banks, in a separate letter, to make supplemental contributions to the Retirement System to provide for the application of the proposed formula."

Approved unanimously, together with the following letter to the Presidents of all the Federal Reserve Banks:

"In accordance with the recommendation of the Conference of Presidents, the Board authorizes the Reserve Banks to make supplemental payments to the Retirement System in cases of involuntary termination of service of members after age 55 and completion of 25 years of service in amounts necessary to provide:

A retirement allowance consisting of (a) an annuity of equivalent actuarial value to the member's accumulated contributions, plus (b) a pension equal to the pension which the member would receive if he were age 65 at the date of involuntary termination of employment, reduced by 2-1/2 per cent for each year the member lacks of being age 65.

"This authorization is given with the understanding that it establishes maximum limits for supplemental payments which a Federal Reserve Bank may make in its discretion

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"in cases of this kind, and that it does not establish a fixed scale of retirement allowances to be provided in all cases of involuntary separations from service."

Letter to Mr. Horace Mitchell of the Democrat Printing and Lithographing Company, Little Rock, Arkansas, reading as follows:

"Your letter of February 15, 1944, and enclosure, addressed to the Treasury Department, with respect to certain regulations regarding the legality of using the inscription 'United States of America' in the border and other parts of your engraved bond forms, has been referred to the Board of Governors for reply.

"We know of no regulations which have been issued by any Federal agency with regard to this matter but your attention is invited to the provisions of an Act of Congress approved May 24, 1926 (Title 12, U.S.C., section 584) making it a criminal penalty to use the word 'Federal' or 'United States' or any other words implying Government ownership, obligation, or supervision, in advertising or offering for sale any securities not issued by the United States or under the provisions of some Act of Congress. Since a criminal penalty is provided for a violation of this provision of law, the determination of whether a particular transaction is in violation of the statute would be a matter for the determination of the courts or the Department of Justice. Accordingly, the Board has not issued any ruling with regard to this question nor does the Board feel that it would be appropriate for it to express any opinion regarding the matter."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Moriel  
Secretary.

Approved:

W. S. Seales  
Chairman.