

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 28, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper

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 April 27, 1944, were approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Banks of St. Louis and

4/28/44

-2-

San Francisco on April 25, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on April 27, 1944, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 24, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mr. G. L. Bach, an economist in that Division, be granted leave of absence without pay beginning April 25, 1944, so that he might enter active duty with the United States Naval Reserve, and that he be granted one month's unearned salary and the other benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously, with the understanding that the payment of one month's unearned salary would be at the rate of basic salary plus overtime.

Memorandum dated April 27, 1944, from Mr. Morrill, submitting the resignation of Mrs. Agnes S. Eichelberger as a file clerk in the Secretary's Office, to become effective as of the close of business on May 2, 1944, and recommending (1) that the resignation be accepted as of that date and (2) that, for reasons stated in the memorandum, the reimbursement for 11 days, 5 hours, and 50 minutes of sick leave

4/28/44

-3-

overdrawn by Mrs. Eichelberger be waived.

The resignation was accepted and the reimbursement for overdrawn sick leave waived.

Letters to the "Citizens Bank of Monroe", Monroe, New York, and the "North Shore Bank Trust Company", Oyster Bay, New York, 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. William R. McQuaid, President of The Barnett National Bank, Jacksonville, Florida, reading as follows:

"This refers to your letter of April 14, 1944, to Governor Ransom, in which you state that you are looking into the advisability of establishing a common trust fund and ask for information as to the difference between the \$1200 limitation which appears in subsection (b) of section 17 of the Board's Regulation F and the \$25,000 limitation which appears in subsection (c).

"On December 31, 1937, the Board amended its regulation relating to trust powers of national banks so as to provide a method of setting up common trust funds for general investment from the assets of trust estates, but provided that the amount which can be invested from any one trust in such a common fund may not exceed \$25,000 or 10 per cent of the amount of the fund, whichever is less. When there is a common trust fund of this kind, it is necessary to have a written plan adopted by the board of directors of the bank, an annual audit of the fund must be made, and the value of the assets in the fund must be determined at least every three months by the trust investment committee, and other miscellaneous requirements must be

4/28/44

-4-

"followed. These requirements are in subsection (c).

"For a number of years prior to 1937, however, the regulations of the Board had permitted the investment in a common trust fund of cash balances of a trust which the bank considered to be individually too small to be invested separately to advantage. When the regulation was amended at the end of 1937, this provision permitting investment of small cash balances was continued in the regulation, with the limitation that the total investment of the cash balances of any one trust in such a common trust fund should not exceed \$1200. In making such investments of small cash balances in common trust funds, the provisions relating to common trust funds for general investment (with the \$25,000 limit) are not applicable, and the adoption of a written plan, the annual audit, and the periodic valuation of assets are not necessary. The investment of small cash balances in common trust funds is covered by subsection (b) and the only limitation is the \$1200 one.

"These two different types of common trust funds, one relating to general investment and the other to investment of small cash balances are rather confusing, and, if the explanation which we have attempted to make above does not serve to clear the matter up in your mind, we suggest that you communicate with the Federal Reserve Bank of Atlanta. For your convenience, an up-to-date copy of Regulation F is enclosed herewith."

Approved unanimously, together with a letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, enclosing copies of Mr. McQuaid's letter of April 14 and the above reply.

Letter prepared for the signature of Chairman Eccles to Mr.

John M. Hancock of the Office of War Mobilization, reading as follows:

"I have yours of April 13 relating to H.R. 3022 recently reported out by the House Military Affairs Committee. This bill would make the Comptroller General the final judge of the amounts due contractors under terminated war contracts although the determination of the contracting officer in the procurement agency may become final within

4/28/44

-5-

"six months if no adverse finding is made. In your letter you ask for the opinion of the Board of Governors as to how widely member banks would grant loans under this bill as compared with the plan recommended in the Baruch-Hancock Report and which is embodied in the George-Murray Bill (S. 1718) as amended following the hearings by the Subcommittee on Postwar Economic Policy and Planning.

"There can be no doubt that commercial banks would not grant credit as readily under H.R. 3022 as under S. 1718. In estimating the amount realizable by contractors and sub-contractors from their claims, banks have become accustomed to check closely with the procurement agencies. They have found that these agencies are well qualified to judge the quality of the borrower's performance and to estimate the value of the borrower's claims, whether assigned or not. Should the banks find that the judgment of the procurement or contracting officer is to be supplanted by, or at least made subordinate to, the opinion of the Comptroller General, they would be on less familiar ground and would consequently be more cautious in advancing funds against such claims. Assuming competency in the staff of the Comptroller General in spite of their unfamiliarity with the borrower's performance, if the ultimate realization upon these claims, except for fraud, is to depend upon two different Government agencies and their staffs, it seems quite obvious that banks would be less willing to make credit available.

"Moreover, there are certain requirements in H.R. 3022 which are unnecessarily restrictive. One is the provision that no guarantee may be made unless the contracting agency determines that the war contractor has shown the loan to be necessary in order to enable him to continue operations. In practical operation, such a restriction would tend to hamper and delay the making of guaranteed loans and in many cases to discourage or prevent banks from making such loans in cases where they should be made. Such undesirable restrictions are not to be found in S. 1718.

"While the pending legislation, if enacted, would place the emphasis upon T loans, other types of credit are also involved. The unsettled claims arising out of cancelled war production contracts have great potential value as the basis for unguaranteed bank credit of other types. In many cases, the claims will constitute the chief liquid asset of the borrower. If banks have confidence in the promptness and finality of negotiated

4/28/44

-6-

"settlements, they will loan against such claims for a variety of purposes, including the purchase of surplus government property, plant modernization, and many others incident to the reconversion to or resumption of civilian production. But the potential value as a basis for credit of the billions of dollars of such claims would shrink measurably, in our opinion, if H.R. 3022 were enacted.

"It is agreed on all sides that it is of the utmost importance to prevent any stalemate in the resumption of production of goods for civilian use. In spite of all efforts to speed up the settlement of contracts, it is apparent that the sheer volume of cancellations will require a good many months for the settlement of the bulk of the resulting claims. It is during this period that chief reliance must be placed upon bank credit. Under these circumstances, the country cannot afford to risk any slowing down or curtailment of bank lendings."

Approved unanimously.

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

"We have studied carefully the problem presented in recent discussions relating to interpretation of section 12(b) of Regulation W. Poll of operating men at Reserve Banks has shown that seven would favor adherence to interpretation growing out of S-743, three would favor amendment to obtain opposite result and two would oppose amendment but favor obtaining that result by reversal of S-743. The Board is impressed by the fact that the situation now presented is a natural outgrowth of the policy of decentralization of administration that has been developed under Regulation W and the fact that an interpretation opposite to that contained in S-743 has received wide circulation in certain districts. Persuasive reasons have been presented against amending the regulation at this particular time. In view of all the circumstances it has been proposed that without modifying S-743 or adopting an amendment the Board advise the Federal Reserve Banks that the Board is not disposed to require strict adherence to the provisions of section 12(b) of the regulation in any case

4/28/44

-7-

"in which the part of the credit which is subject to the regulation complies in all respects with the applicable provisions of the regulation. We should appreciate having an expression of your preference as between this proposed solution and an amendment along lines suggested in Mr. Parry's wire of April 17."

Approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of April 19, 1944, in which it is stated that the board of directors of your Bank at its meeting on April 13, resolved, subject to approval of the Board of Governors, that the officers be authorized to acquire the remainder of the property in City Block 98 not occupied by the building of the Reserve Bank.

"The Board has considered this proposal in the light of your letter and will interpose no objection to the purchase of the property at the cost, approved by your directors, of not to exceed \$240,000, provided a clear title can be obtained thereto. It will be appreciated if you will keep the Board advised of developments in this matter."

Approved unanimously.

Letter to Honorable Brent Spence, Chairman of the Committee on Banking and Currency, House of Representatives, reading as follows:

"This is in response to Mr. Dingus' letters of January 17 and February 15, 1944, to Vice Chairman Ransom requesting a report on H. R. 1818. This bill provides that an insured bank which is examined under the supervision of the Comptroller of the Currency at least twice during any calendar year may deduct from its assessments payable to the Federal Deposit Insurance Corporation during the following calendar year the amount of the examination charge paid by it to the Comptroller of the Currency for the last examination in the preceding year, excluding any amount paid for examination of its trust department.

4/28/44

-8-

"The Board feels that there should be a different and more fundamental approach to the problem which is touched upon by this bill. As pointed out in the Annual Report of the Board of Governors for 1938, there is within the Federal Government a diversification and overlapping of administrative authority with respect to banking which results in different treatment of banks according to the nature of the subject matter, the group within which particular banks fall, and which of three or more Federal agencies has primary jurisdiction. The Board continues its belief that the defects in the machinery of Federal banking supervision should receive the consideration of Congress, and that the need for improvement is intensified by war conditions, including among other things the war manpower situation.

"In relation to the provisions of this bill, it may be pointed out that the Comptroller of the Currency is required by law to examine each national bank at least twice in each calendar year and to assess the costs thereof against the banks examined. On the other hand, the law does not require any specific number of examinations by Federal Reserve authorities although they are authorized to examine all member banks, national and State, and they are not required to assess the costs against the banks examined. In practice the Federal Reserve authorities accept the examinations of the Comptroller of the Currency with respect to national banks and examine only State member banks, jointly or alternately with State authorities, and no charge is made for such examinations. The Federal Deposit Insurance Corporation, which has authority to examine national banks with the consent of the Comptroller of the Currency and State member banks with the consent of the Board of Governors, is not required to make any specific number of examinations nor to make any charge therefor. The Corporation ordinarily examines only insured State banks which are not members of the Federal Reserve System; such examinations are made jointly or alternately with the State authorities and no charge is made for them.

"In the light of this situation, if the Committee should decide to give consideration to the proposal contained in H. R. 1818, the Board believes that the matter should be approached from a different point of view. Instead of transferring a part of the costs of examinations

4/28/44

-9-

"of national banks to the Federal Deposit Insurance Corporation, the Board would recommend that section 5240 of the United States Revised Statutes be amended either by reducing from two to one the minimum number of examinations of each national bank in each calendar year which national bank examiners are required to make or by eliminating the minimum requirement entirely and permitting the Comptroller of the Currency to exercise his discretion as to the number and frequency of the examinations. This would enable the Comptroller of the Currency to adopt a policy in this respect similar to that of other examination authorities, thereby greatly reducing the cost to national banks, without calling upon the Federal deposit insurance fund.

"The general condition of the great majority of national banks is such that semi-annual examinations are unnecessary. It may be pointed out in this connection that according to recent figures 78 per cent of the assets of national banks in the aggregate consisted of cash, amounts due from banks, and United States Government securities. Moreover, relief from a mandatory requirement of this character would be especially helpful, both to the banks and to the Government, because of the practical difficulties resulting from war conditions of maintaining an adequate force of trained and experienced bank examination personnel and the desirability of relieving banks as far as possible of unnecessary interference with their other work. The resulting reduction in cost of examinations should be substantial and this would be in accord with the apparent purposes of the bill.

"The Board does not agree with the proposal to deduct a part of the cost of examinations of national banks from the assessments made by the Federal Deposit Insurance Corporation against such banks because all insured banks are assessed for the benefit of their depositors on a uniform basis, without regard to whether they are national or State banks or how often they are examined or by whom, and apparently the sole reason for such a proposal would be the existence of a statutory mandate upon the Comptroller of the Currency to make at least two examinations each year, which in the opinion of the Board is unnecessary, while the other Federal authorities and most of the States are not under such a mandate.

"The Board therefore believes that hearings would be desirable before this bill is acted upon by your Committee

4/28/44

-10-

"in order to afford the interested State banks and State supervisory authorities, as well as national banks and the Federal supervisory agencies, an opportunity to be heard."

Approved unanimously, together with letters to Honorable Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, and Honorable Daniel W. Bell, Under Secretary of the Treasury, enclosing copies of the above letter for their information.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.