

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 29, 1944, at 10:40 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. Paulger, Director of the Division of Examinations  
Mr. Parry, Director of the Division of Security Loans  
Mr. Dreibelbis, General Attorney  
Mr. Pollard, Assistant Director of the Division of Examinations  
Mr. Wyatt, General Counsel  
Mr. Hostrup, Federal Reserve Examiner

Further reference was made to the letter received from the Federal Reserve Bank of San Francisco under date of May 19, 1944, advising of the receipt by the Bank of an application of the Bank of Nevada, Las Vegas, Nevada, for membership in the Federal Reserve System and inquiring whether, as provided in section 4 of Regulation P, Holding Company Affiliates--Voting Permits, the Board would require Transamerica Corporation, which would become a holding company affiliate upon the admission of the bank to membership in the System, to file an application for a voting permit to vote the stock of the

6/29/44

-2-

State bank. Since the meeting of the Board on May 29, 1944, when the letter from the Federal Reserve Bank was first referred to, the members of the Board had discussed the matter informally, and it was on the docket for this meeting for a determination of the action that should be taken in connection with it.

Mr. Dreibelbis stated that, if the Bank of Nevada were admitted to membership, Transamerica Corporation would become a holding company affiliate of that bank and that this was the first case in which a non-member bank owned by Transamerica Corporation had made application for membership. He called attention to the fact that Transamerica Corporation held a voting permit authorizing it to vote the stock which it owned or controlled in three member banks and that it owned a controlling interest in a number of other member banks, all of which were members when that interest was acquired and for which voting permits had not been obtained. Attention was also directed to the fact that, under section 4 of the Board's Regulation P, an application for a voting permit by the prospective holding company affiliate was a condition precedent to the admission of the bank to membership and that, if the Board in the instant case granted the bank membership, it would have either to act contrary to its regulation or to require an application in accordance with the regulation. Mr. Dreibelbis then stated that the precise question presented by the Federal Reserve Bank of San Francisco was whether, under section 4 of Regulation P, an application for a voting permit would be necessary in the particular case. He expressed the opinion that, if Transamerica Corporation, in conformity with section

6/29/44

-3-

4 of Regulation P, filed an application for a general voting permit, fundamental issues would be raised with respect to the general situation and that action by the Board on such an application could have a material effect upon this situation. The question before the Board was how the matter should be handled in these circumstances.

It appeared to be the consensus of the members of the Board that, in the circumstances, the Board should not take any action which could be interpreted as inviting an application for a voting permit by Transamerica Corporation; that the Federal Reserve Bank of San Francisco should be advised of the applicability of section 4 of Regulation P to the particular case; and that, pending a review of the existing situation with respect to the general voting permit, the Board would not be disposed to grant a voting permit to Transamerica Corporation.

There was a general discussion of the alternative courses of action that might be available to the Board in the light of the applicable provisions of law and the Board's Regulation P, at the conclusion of which Messrs. Dreibelbis and Paulger were requested to prepare, for consideration by the Board, a draft of letter to the Federal Reserve Bank of San Francisco which would be along lines suggested during the discussion.

While this matter was under consideration Mr. Thomas, Assistant Director of the Division of Research and Statistics, entered the room, and when the discussion was concluded Messrs. Paulger, Pollard, and Hostrup withdrew.

There was then presented and read a draft of statement prepared by Messrs. Draper and Parry pursuant to the action taken at the meeting

6/29/44

-4-

of the Board on June 23, 1944, setting forth, in the form of a suggested press release, reasons that might be given by the Board for action increasing from 40 to 50 per cent the margin requirements prescribed in its Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. In the discussion which ensued, questions were raised as to whether the suggested action would be premature at this time, as to whether such an increase would have any effect upon the use of credit for the purchase of securities, and as to whether it might be interpreted as indicating a feeling on the part of the Board that security prices were going to increase and thereby encourage activity in the security markets. There was also discussion of a suggestion that the margin requirements on both purchases and short sales of securities be increased in steps of, say, 5 per cent at a time to some higher figure such as 60 per cent and also whether, in view of the current need for financing war and essential civilian production, any credit at all should be used for the purpose of purchasing securities.

Inquiry was made whether the increased margin requirements proposed by Mr. Draper had been discussed with the Securities and Exchange Commission, and Mr. Draper stated that it had not been for the reason that it was felt that the matter should first be considered by the Board. Inquiry was also made whether the views of representatives of the New

6/29/44

-5-

York Stock Exchange should be obtained with respect to the proposed increase. There was a discussion of this latter point, and there was some difference of opinion as to whether such a step should be taken.

Mr. Draper stated that he would like to have action taken of such a nature that, after the conclusion of the Fifth War Loan Drive and after consultation with representatives of the Securities and Exchange Commission, the maximum loan values on securities prescribed in the Board's Regulations T and U would be reduced from 60 to 50 per cent for the reasons outlined in the proposed press statement.

At the conclusion of the discussion, it was understood that Mr. Draper would discuss the matter with representatives of the Securities and Exchange Commission and report their views to the Board.

At this point Messrs. Thurston, Parry, Dreibelbis, Thomas, 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 June 28, 1944, were approved unanimously.

Memorandum dated June 26, 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, Charles G. Crause be appointed on a temporary basis for a period of not to exceed 12 months as a Federal Reserve Examiner, with basic salary at

6/29/44

-6-

the rate of \$4,000 per annum, and with official headquarters at St. Louis, Missouri, it being understood that upon the completion of his service with the Board he will be returned to the Federal Reserve Bank of St. Louis.

By unanimous vote, Mr. Charles G. Crause was appointed on a temporary basis for a period of not to exceed 12 months 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 a Federal Reserve Examiner, with official headquarters at St. Louis, Missouri, and with basic salary at the rate of \$4,000 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Letters prepared pursuant to the action taken at the meeting of the Board on June 20, 1944, to Messrs. Lassiter, Neely, Caldwell, and Taylor, Chairmen of the Federal Reserve Banks of Richmond, Atlanta, Kansas City, and Dallas, respectively, reading as follows:

"Mr. Szymczak has reported to the other members of the Board of Governors the request made on behalf of the Federal Reserve Banks of Richmond, Atlanta, Kansas City and Dallas during an informal conference at the time of the last meeting of the Chairmen in Washington that the Board increase to \$25,000 and \$18,000 respectively the maximum salaries which had been established by the Board for the Presidents and First Vice Presidents of the Federal Reserve Banks of Richmond, Atlanta, Kansas City, and Dallas.

6/29/44

-7-

"The Board has reviewed carefully the considerations which prompted the establishment in 1941 of the maximum salaries for Presidents and First Vice Presidents and the reasons advanced for the removal of the differential with respect to the Banks for which \$20,000 was fixed as the limit for salaries of Presidents. The Board, however, believes it would not be successful in establishing before the Commissioner of Internal Revenue the justification for increasing this limit as being necessary to correct 'gross inequities' under the present salary stabilization regulations, and believes furthermore that it would be highly undesirable from the standpoint of the System to make the attempt.

"The Board recognizes that a strong case can be presented for eliminating differentials between most of the banks and at some later date, when the present salary stabilization regulations have been removed, or a material change has taken place in the situation with respect to them, the Board will re-examine the question of maximum salaries and make such changes, upwards or downwards, in them as conditions may then warrant.

"When the matter is taken up again for consideration, the Board will be glad to consult the Chairmen of the Banks concerned, and wishes to assure you that it appreciates fully the attention that you have given the problem."

Approved unanimously.

Letter to the board of directors of the "Cleveland State Bank", Cleveland, 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 Chicago.

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

6/29/44

-8-

"The Board of Governors of the Federal Reserve System approves the application of the 'Cleveland State Bank', Cleveland, 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 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 bringing into conformity with the provisions of law and the Board's regulations the demand deposit of the State of Wisconsin on which the bank is paying interest."

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of the "Exchange State Bank of Glendive", Glendive, Montana, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Minneapolis. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram contained the following additional statement:

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions



6/29/44

-9-

"of law and the Board's regulations the savings account mentioned on page 16 of the report of examination for membership."

Approved unanimously.

Letter to Mr. Charles F. Riddell, Vice President of The Riddell National Bank, Brazil, Indiana, reading as follows:

"In reply to your letter of June 22, 1944, this is to advise you that no national bank operating a trust department is required to deposit securities with a Federal Reserve Bank to secure trust activities. This is true regardless of whether the laws of a particular State require or do not require a deposit of securities with the State authorities before the exercise of trust powers.

"If you desire any further information in this connection, it is suggested that you address your communication to the Federal Reserve Bank of Chicago."

Approved unanimously.

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

"There is enclosed a copy of a memorandum received from the Navy Department, dated June 26, 1944, signed by William A. Coolidge, Chief of Finance Section, with respect to interpretations of Section 6(B) of the April 6, 1943, form of guarantee agreement."

Approved unanimously.

Telegram to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Please tell Leukhart, National Used Car Market Report, that copy (with respect to Amendment No. 12 to Regulation W) submitted in his letter of June 27 is satisfactory."

Approved unanimously.

6/29/44

-10-

Memorandum dated June 27, 1944, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, submitting a letter from William L. Langer, Chief of the Research and Analysis Branch of the Office of Strategic Services, in which it was requested that Mr. Gerschenkron, an Economic Specialist in the Division of Research and Statistics, prepare for the Office of Strategic Services a report dealing with problems arising in organizing trade between Russia and other countries, and recommending, for the reasons stated in the memorandum, that the Board approve compliance with the request.

Approved unanimously.

Thereupon the meeting adjourned.

Preston Morrie  
Secretary.

Approved:

W. L. Langer  
Chairman.