A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 2, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Evans
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 August 1, 1944, were approved unanimously.

Memorandum dated July 31, 1944, from Mr. Paulger, Director of the Division of Examinations, recommending that Miss Nancy Lee Chelberg be appointed as a stenographer in that Division on a temporary basis for an indefinite period, with basic salary at the rate of $1,440 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, with the understanding that in two months she will be recommended for a permanent appointment if her services prove satisfactory.

Approved unanimously.
Letter to Mr. Stewart, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of St. Louis as submitted with your letter of July 14."

Approved unanimously.

Letter to the board of directors of "The Ottawa County Bank", Minneapolis, Kansas, 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 Kansas City.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Ottawa County Bank', Minneapolis, Kansas, 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 Bank Commissioner for the State of Kansas, for his information.

"It has been noted that the bank proposes to decrease its common capital stock from $50,000 to $35,000 after admission to membership and to increase its surplus account from $20,000 to $35,000. It is understood that your Committee has considered the proposal and has no objection to it. After the proposed reduction has been effected
"the capital of the bank will be below that required for organization of a national bank in the same place. Under applicable provisions of the Federal Reserve Act, however, the bank could be admitted to membership with $35,000 capital or, after admission, it could withdraw, effect the proposed reduction, and have sufficient capital for readmission. Therefore, the Board is of the opinion that the proposed reduction will not violate the purposes of the requirements of the Act, and will interpose no objection to completion of the transaction as proposed, provided prior formal approval of the appropriate State authorities is obtained and counsel for the Reserve Bank is to be satisfied that the transaction is consummated in accordance with State law.

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

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

"Receipt is acknowledged of your letter of July 14 submitting a question which has arisen under Regulation W. The facts, as you report them, are that a bank agreed orally with a customer to finance the purchase of an automobile. The customer, a few days later, selected a car and paid something more than one-third of the purchase price, taking delivery of the car and signing a conditional sale contract with the dealer. The contract had a three-day maturity as to the balance. The customer did not inform the dealer that the balance was to be paid by the bank.

"The following day the customer returned to the bank and signed a formal application for the financing. The bank did not make a loan to the customer but had him sign a contract for the purchase of the car to be liquidated in twelve monthly instalments. The dealer declined to execute this instalment contract, and inquired of your Los Angeles Branch concerning the provisions of Regulation W. He was informed that the original conditional sale contract was a 'charge account' and that an agreement to liquidate it in instalments could not have a maturity of more than six months in view of Section 5(e) unless the circumstances justified a Statement of Necessity. The dealer thereupon returned all the papers to the bank."
"Technically, of course, the advice given by the Los Angeles Branch is correct; and it means that neither the dealer nor the bank, nor any other Registrant, could refinance the original three-day conditional sale contract on an instalment basis for a term longer than six months, without a Statement of Necessity. It might be argued, as the bank does, that the purchaser should be allowed to complete the transaction with it according to what appears to have been his original plan, but the only legally binding agreement was the one with the dealer.

"Because of the unusual way in which the transaction was handled, the full reasons for which do not appear, the purchaser finds he is prevented from completing it in the way he apparently planned. Yet there is no indication of any attempt at evasion, and it would seem to be undesirable to penalize the purchaser by requiring the shorter maturity.

"If the bank and the purchaser had been the only two parties to the transaction, the solution suggested by the bank might have been allowable on the theory that the parties were acting in good faith and that the requirement, as to them, was a technicality which could be waived, because, with only two parties to the transaction, it would be clear that the original contract was merely an intermediate step in the financing. However, this is a case in which a controversy has arisen between several parties, and the Board is not in position to decide what the rights are as between them. Consequently, we suggest that the bank, the dealer, and the purchaser be asked to get together and work out an arrangement that will be mutually satisfactory. This arrangement could provide instalment credit from either the dealer or the bank for twelve months from May 22, 1944. If they cannot work out a satisfactory compromise, there would appear to be no alternative but the six months' plan, unless the dealer decided to consider the existing contract in default and proceed with his usual remedies."

Approved unanimously.

Letter to Honorable Robert F. Jones, House of Representatives, reading as follows:

"This is in reply to your letter of June 20, 1944 regarding the economic research and statistical work of
"Research and analysis of economic problems and the preparation of most of the material on such subjects for publication in the Federal Reserve Bulletin and the Board's Annual Report is done for the Board by its Division of Research and Statistics, which has been in existence for over 25 years. Collection and compilation of certain statistics of Reserve Bank and member bank operations and condition, for which the Board is responsible under the law, is done by the Board's Division of Bank Operations, which is primarily an operating and administrative division rather than a research and statistical division.

"Information regarding the work of the two divisions is given in more detail in the attached statements.

"Enclosed is a copy of the Federal Reserve Bulletin and a copy of the Board's Annual Report which show the types of information published by the Board."

Approved unanimously.

Letter to The National City Bank of New York, New York, New York, reading as follows:

"Reference is made to your letter of July 14, 1944, stating that the executive officers of your Bank expect to recommend shortly to International Banking Corporation that its Board of Directors authorize the opening of one or more branches in Paris, France, as soon as that area shall have been liberated and at such time as may seem expedient to the proper officers of that Corporation.

"The Board of Governors of the Federal Reserve System has today addressed a letter to International Banking Corporation advising that it is amending the regulations of the Board of Governors with which the Corporation has agreed to comply, as a condition precedent to the purchase of its stock by national banks under the provisions of section 25 of the Federal Reserve Act, to provide that the Corporation shall not hereafter establish new branches or agencies except with the Board's approval. This is being done to bring the regulations accepted by International Banking Corporation into conformity with (1) similar regulations of, and agreements with, other foreign banking corporations entered into pursuant to the provisions of section 25 of the Federal Reserve Act and (2) the provisions of the
"Board's Regulation K governing banking corporations authorized to do foreign banking business under the terms of section 25(a) of the Federal Reserve Act, with respect to the powers of such corporations to establish branches or agencies.

"On the basis of the information contained in your letter and otherwise available at this time, the Board of Governors will give favorable consideration to an application by International Banking Corporation to establish a branch or branches in Paris, France, should such action not conflict with applicable national policy at the time the application is received."

Approved unanimously, together with the following letter to the International Banking Corporation, it being understood that both letters would be transmitted through the Federal Reserve Bank of New York:

"The National City Bank of New York has informed the Board of Governors that it expects to recommend shortly to your Corporation that your Board of Directors authorize the opening of one or more branches in Paris, France, as soon as that area shall have been liberated and at such time as may seem expedient to the proper officers of the Corporation.

"The regulations of the Board of Governors with which you have agreed to comply as a condition precedent to the purchase of stock by national banks under the provisions of section 25 of the Federal Reserve Act do not require your Corporation to obtain the approval of the Board for the establishment of any branches or agencies. Similar regulations of, and agreements with, other foreign banking corporations, as well as the provisions of the Board's Regulation K covering banking corporations authorized to do foreign banking business under section 25(a) of the Federal Reserve Act, require such approval. Accordingly, the regulations applicable to your Corporation have been amended by the Board of Governors to provide that your Corporation shall not hereafter establish any branches or agencies except with the approval of the Board of..."
"Governors. Paragraph B. POWERS of the agreement has been amended by the addition of a new subdivision B.3 reading as follows:

'Branche and Agencies

It must be understood, furthermore, that you shall not hereafter establish any branches or agencies except with the approval of the Board of Governors of the Federal Reserve System.'

"On the basis of the information contained in the letter of July 14, 1944, addressed to the Board of Governors by The National City Bank of New York, and otherwise available at this time, the Board of Governors will give favorable consideration to an application by your Corporation to establish a branch or branches in Paris, France, should such action not conflict with applicable national policy at the time the application is received.

"It is requested that the foregoing be made a matter of record in the minutes of your Board of Directors and the Board of Governors notified as to the date of such action. It will be appreciated if you will acknowledge receipt of this letter."

Unanimous approval was also given to the following letter to the French American Banking Corporation, New York, New York, for transmission through the Federal Reserve Bank of New York:

"The regulations of the Board of Governors with which you have agreed to comply as a condition precedent to the purchase of stock by national banks under the provisions of section 25 of the Federal Reserve Act do not require your corporation to obtain the approval of the Board for the establishment of any branches or agencies. Similar regulations of, and agreements with, other foreign banking corporations, as well as the provisions of the Board's Regulation K covering banking corporations authorized to do foreign banking business under section 25(a) of the Federal Reserve Act, require such approval. Accordingly, the regulations applicable to your corporation have been amended by the Board of Governors to provide that your Corporation shall not hereafter establish any branches
or agencies except with the approval of the Board of Governors. Paragraph B. POWERS of the agreement has been amended by the addition of a new subdivision B.3 reading as follows:

"Branches and Agencies

It must be understood, furthermore, that you shall not hereafter establish any branches or agencies except with the approval of the Board of Governors of the Federal Reserve System." 

"It is requested that the foregoing be made a matter of record in the minutes of your Board of Directors and the Board of Governors notified as to the date of such action. It will be appreciated if you will acknowledge receipt of this letter."

In connection with the action on the above letters, approval was also given to a suggestion of the Division of Examinations that representatives of that Division and the Legal Division be authorized to inquire informally of appropriate officials of the State Department whether the Department had any reason for feeling that the proposed branches of the International Banking Corporation in Paris should not be approved.

Thereupon the meeting adjourned.

Approved:

Chairman.