

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 3, 1944, at 3:30 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Parry, Director of the Division of
Security Loans
Mr. Dreibelbis, General Attorney
Mr. Chase, Attorney
Mr. Cherry, Attorney
Mr. Wyatt, General Counsel

Attention of the members of the Board who were in Washington had been drawn to a memorandum dated October 27, 1944, from Messrs. Ransom and Parry submitting a proposed amendment to Regulation W, Consumer Credit, which would except from the provisions of the Regulation any loan to a war veteran guaranteed by the Administrator of Veterans' Affairs pursuant to Title III of the Servicemen's Readjustment Act of 1944. The memorandum stated that the act provided for a Government guarantee of loans to veterans for specified purposes, including home purchases, home repairs and improvements, purchase of business property, and purchase, repair and improvement of farm property and equipment, and that the credit now subject to Regulation W which was within the scope of the Servicemen's Readjustment Act consisted principally of residential repairs and improvements and certain consumers' durable

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goods items occasionally purchased for business use, such as taxicabs. The memorandum also stated that the proposed amendment had been discussed with the Veterans' Administration and was satisfactory to it and that, while the amendment had not been submitted to the Consultative Committee, it had been discussed informally with the representative of the Office of Price Administration, who recommended that it be adopted.

Following a discussion of the extent of the guarantee provided by the new law, Mr. Evans referred to the unsatisfactory experience with respect to veterans' indebtedness following the last war and suggested that every effort should be made to protect the veterans of this war from attempts which undoubtedly would be made to encourage them to incur unjustified indebtedness. In connection with the consideration of this point it was stated that, while there was no specific provision in the Servicemen's Readjustment Act which would require that the Board grant to guaranteed veterans' loans complete exemption from the provisions of Regulation W, it appeared from the statute that it was the intention of Congress that the terms of such loans should be fixed within the limitations of the statute and the regulations prescribed by the Veterans' Administration thereunder, and that, therefore, the Board had no choice other than to exempt such loans from the provisions of Regulation W. There was also a discussion of the desirability of the Board taking steps to place on record the opinion expressed during this meeting with respect to the necessity of protecting returning veterans from pressure to incur unjustified indebtedness, but no action

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was taken.

At the conclusion of the discussion, Mr. Ransom moved that the following amendment to Regulation W be adopted, to become effective on November 6, 1944, and that the press statement attached to the memorandum submitted by him and Mr. Parry with respect to the amendment be given to the press tomorrow for release in the morning papers of Monday, November 6, 1944:

"AMENDMENT NO. 14 TO REGULATION W

"Issued by the Board of Governors
of the Federal Reserve System

"Regulation W is hereby amended, effective November 6, 1944, by adding to section 8 entitled 'EXCEPTIONS' the following new subsection:

"(q) Servicemen's Guaranteed Loans. - Any extension of credit guaranteed in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944."

Mr. Ransom's motion was approved unanimously, with the understanding that the text of the amendment and the press statement would be wired to the Federal Reserve Banks today with the request that they print the amendment and distribute it to interested persons in their respective districts.

Mr. McKee stated that he had been informed by Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, that a request had been received by the Reserve Bank from officials of the Navy Department in San Francisco for Federal Reserve notes of the \$50 and \$100 denominations in the total amount of \$10 million. Mr. Clerk reported, Mr. McKee said, that the Bank did not feel that it was in a position to question the request and had complied with it, but that

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he wanted to report the matter for the information of the Board. Mr. McKee added that, in the absence of Mr. Bell, Under Secretary of the Treasury, he took the matter up with Mr. Heffelfinger, Assistant to the Under Secretary of the Treasury, who discussed it with the Navy Department, and that it appeared from that discussion that there was a considerable hoarding and speculative demand for United States currency in India and China, with the result that the currency was being purchased at premiums with the larger denomination bills carrying the highest premiums. In these circumstances it was the opinion of the Navy officials that, if payments in India and China were made with the larger denomination bills, it would tend to equalize this premium, and the currency acquired from the Federal Reserve Bank of San Francisco was desired for that purpose. Mr. McKee went on to say that he was reporting the matter for the Board's information and that there did not appear to be any action required in connection with it at this time.

Referring to another matter, Mr. McKee stated that it had been found that the Florida National Bank at Ocala, Florida, a bank with total resources of \$3,200,000 and demand deposits of \$2,400,000 had borrowed \$2,000,000 from the Federal Reserve Bank of Atlanta for 90 days with which it had purchased that amount of 2 per cent Treasury bonds, which, because of the difference between the discount rate applicable to the loan from the Federal Reserve Bank and the return on

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the Government securities purchased, would enable the bank to increase its earnings. Mr. McKee also said that this was clearly an abuse of the Federal Reserve credit facilities, that he had asked the Legal Division to review the matter and to prepare a memorandum with respect to it, and that it was his suggestion that, as there appeared to be other similar cases in the Atlanta district and the practice might spread, the whole matter should be discussed by the Board with the Presidents of the Federal Reserve Banks at the time of their next conference. All of the members of the Board present were in agreement that this whole problem should be discussed with the Presidents.

At this point Messrs. Thurston, Parry, Dreibelbis, Chase, Cherry, and Wyatt withdrew from the meeting.

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 October 28, 1944, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 30, October 31, November 1, and November 2, 1944, were approved and the actions recorded therein were ratified unanimously.

There were presented telegrams to Messrs. Treiber, McCreedy, and Clouse, Secretaries of the Federal Reserve Banks of New York,

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Philadelphia, and Cleveland, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Bank of St. Louis on October 31 and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago, and San Francisco on November 2, 1944, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"In accordance with the request contained in your letter of November 1, 1944, the Board approves the designation of Edward D. Kerns as a special assistant examiner for the Federal Reserve Bank of Philadelphia."

Approved unanimously.

Letter to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"In accordance with the recommendation contained in your letter of October 26, 1944, the Board of Governors interposes no objection to the investment by the Citizens State Bank of Arlington, Arlington, South Dakota, of approximately \$3,000 in an addition to the banking premises."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Moriel
Secretary.

Approved:

Donald Hanson
Vice Chairman.