

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, January 3, 1945, at 10:30 a.m.

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

Mr. Morrill, 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 January 2, 1945, were approved unanimously.

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as of the close of business on December 30, 1944, and that, in accordance with the usual practice, a call was made today on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves payment of salaries

1/3/45

-2-

"to the following officers of the Federal Reserve Bank of Kansas City for the period January 1, 1945 to May 31, 1945, inclusive, at the rates indicated, which are the rates fixed by the Directors as reported in your letter of December 22, 1944, and supplemented by your letter of December 23, 1944:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
John K. Friedebach	Cashier, Omaha Branch	\$5,000
F. R. Fritz	Asst. Cashier, Oklahoma City Branch	4,500
William Doran	Asst. Cashier, Omaha Branch	4,000
Hubert G. Duck	Asst. Cashier, Denver Branch	3,600"

Approved unanimously.

Letters to "The Ebenezer State Bank", Ebenezer, New York, the "North Side Bank", Lebanon, Pennsylvania, "The Annapolis Banking and Trust Company", Annapolis, Maryland, the "Citizens State Bank of Milford", Milford Junction (P.O. Milford), Indiana, "The Peoples State Bank of East Tawas, Michigan", East Tawas, Michigan, "The Elberfeld State Bank", Elberfeld, Indiana, the "Tyler State Bank & Trust Company", Tyler, Texas, and "The Merchants and Farmers State Bank of Weatherford", Weatherford, Texas, 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. Mangels, Vice President of the Federal Reserve

1/3/45

-3-

Bank of San Francisco, reading as follows:

"This is in response to your letter of December 5, 1944 and to your subsequent telegram of December 21, 1944, both having to do with a proposed purchase by First Trust and Savings Bank of Pasadena of the banking premises, furniture and fixtures of First National Bank of Lamanda Park. In your letter of December 5th there was enclosed a letter from First Trust and Savings Bank of Pasadena, dated December 1, 1944, which stated that the matter was being submitted for consideration, in accordance with Article 8 of the Conditions of Membership, and that the proposed purchase price was \$36,794.59. Your wire of December 21, 1944, indicates a possible reduction in the purchase price to \$20,500 of which \$16,500 is the purchase price of the land and building.

"Under date of February 14, 1942, First Trust and Savings Bank of Pasadena, which was then seeking to establish a branch at Alhambra and to acquire the assets of the Temple City National Bank and establish a branch at that point, was advised that the Board had concluded that it should not approve the establishment of the proposed branches. At the same time the Board communicated with Transamerica Corporation, since it owned a large majority of the shares of both of these banks, stating its opposition to this and any further expansion of Transamerica Corporation, under existing circumstances, and requesting that Transamerica Corporation advise the Board before consummating any plans for the further expansion of its interest in banks. Nevertheless, Transamerica Corporation, without any prior consultation with the Board, subsequently acquired the First National Bank of Lamanda Park. Later, without having a permit to vote the stock of either of these member banks, and without having applied to the Board of Governors for such voting permit or otherwise advising the Board of the proposed action, the Lamanda Park bank was taken over by the Pasadena bank by a sale of assets, excepting the building and fixtures.

"The sale now proposed involves a transfer of the building and fixtures from First National Bank of Lamanda Park, in liquidation, almost wholly owned by Transamerica Corporation, to First Trust and Savings Bank of Pasadena,

1/3/45

-4-

"the stock of which is also almost wholly, if not entirely, owned by Transamerica Corporation. Moreover, since Transamerica Corporation has not obtained a voting permit to vote the shares it owns in First Trust and Savings Bank of Pasadena, the result is that the stockholder of all or almost all of the Pasadena bank's stock is legally disqualified to take any action as stockholder other than to put the bank in voluntary liquidation, although it appears that, notwithstanding the absence of any such voting permit, Transamerica Corporation undertook to take action as a stockholder of First Trust and Savings Bank of Pasadena apparently to validate, under California law, its purchase of the assets of First National Bank of Lamanda Park.

"In these circumstances, the Board does not approve the transaction. The Board will appreciate your advising First Trust and Savings Bank of Pasadena and Transamerica Corporation of the Board's conclusion, and copies of this letter are enclosed for that purpose."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Your letter of December 6 enclosed two memoranda relating to the right of the Federal Reserve Bank of Atlanta to accept from a commercial bank in New York a receipt describing United States obligations that serve as collateral to a loan made to a member bank under the provisions of section 13 of the Federal Reserve Act. A related question was raised in one of the memoranda which you enclosed and another is referred to in the report of examination of your bank and was mentioned by you at the time of the Presidents Conference. These three questions are discussed below.

"The first question, as your Counsel points out, depends upon whether securities held by a third party (in this case a New York City bank) may be validly pledged with the Federal Reserve Bank of Atlanta by a member bank seeking a loan from the Federal Reserve Bank if the securities remain in the possession of the New York bank.

1/3/45

-5-

"Your Counsel answers this question in the affirmative and the answer appears to be correct as a matter of law. In view of the desirability of affording proper services to member banks, and in view of the risk, expense and delay incident to the shipment of negotiable securities, the Board will interpose no objection to the suggested procedure. However, the Board feels that the use of the procedure should not be encouraged. Moreover, in view of the availability of C.P.D. transfer with respect to bills, notes and certificates of indebtedness being sold, the reasons for adopting the procedure with respect to them are not as strong as with respect to bonds, and therefore, the Board feels that the use of the suggested procedure with respect to the former should be discouraged and restricted to a minimum. It is noted from the memoranda which you enclosed that your Counsel is working on a form of receipt to your bank from the New York bank and is also considering an agreement to be made between the member bank making application for a loan and your bank by which the member bank would agree to assume responsibility for any negligence or wrongful act committed by the New York bank in holding the securities. It will be appreciated if you will advise the Board as to the form of receipt and the agreement finally adopted, together with any other details of the procedure which may be decided upon.

"The second question, which is raised in the memorandum of your Counsel, is whether, when bonds are pledged, in the manner above described, to the Federal Reserve Bank, as Fiscal Agent of the United States, as security for the War Loan Account of the member bank making the pledge, and, because of the size of the War Loan Account, all of the bonds are not required to serve as collateral, it is possible to pledge the excess securities to the Federal Reserve Bank as collateral for a loan to the member bank by the Federal Reserve Bank under the applicable provisions of the Federal Reserve Act. The legal question is similar and the answer is likewise in the affirmative. Consequently, the Board will offer no objection. It is understood that the receipt given by the New York bank will not specify the purpose for which the securities are pledged, and that it will run to your Bank and not to your Bank as Fiscal Agent. It is also understood that your Bank will always have specific instructions from the member bank, on the

1/3/45

-6-

"basis of which the records of your Bank will show, specifically, what securities are pledged as collateral, respectively, for the War Loan Account of the member bank and as collateral for its loan from your Bank. It is assumed that if there is any question as to whether the form of receipt given by the New York bank to your Bank, or any other detail of the procedure, conforms to the requirements of Treasury Department Circular No. 92, you will notify the Treasury Department of the procedure adopted so that it may have an opportunity to question the procedure if it desires to do so.

"The third question arises out of the fact that the Trust Company of Georgia has been placing bonds owned by country banks in safekeeping with one of the Trust Company's correspondent banks in New York City, as a service to the country banks. Safekeeping receipts for these bonds are issued by the New York bank in the name of the Trust Company of Georgia. The question is whether the Reserve Bank as Fiscal Agent of the United States should accept these receipts as collateral to War Loan Deposit Accounts in the country banks, which are the actual owners of the securities. Although it would be legally possible to protect the rights of all parties, the Board is of the opinion that the practical and operating difficulties make it undesirable to follow this procedure."

Approved unanimously.

Letter to Mr. Diercks, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of August 16 relative to the manner in which excess profits tax refund bonds issued under the terms of Treasury Department Circular No. 728 dated December 31, 1943, should be shown in bank reports.

"It is understood that the number of banks to which such bonds have been issued is small; that the bonds are not issued until certification by the Commissioner of Internal Revenue, based upon a preliminary examination of the tax return, of the amount to which the taxpayer is entitled; that the bonds are noninterest bearing obligations; that, until the formal declaration of the cessation of



1/3/45

-7-

"hostilities in the present war, the bonds will be non-negotiable and their maturity will be unknown and that thereafter they will mature in five years or less and will be subject to call, in whole or in part, upon three months' notice.

"In these circumstances it would seem that no general instructions on this subject need be given to banks at this time. However, it is our thought that in response to inquiries arising in the course of examinations or otherwise banks might be advised that, for the purpose of condition and earnings and dividends reports, the procedure outlined below would be a conservative one to follow:

"1. As and when the bank pays (or accrues) excess profits taxes, report the full amount in 'Taxes on net income', item 7 in earnings and dividends reports, i.e., without any offsetting credit for the 10 per cent to be refunded in the form of an excess profits tax refund bond.

"2. If and when the bonds are taken up on the books of the Bank, following their receipt, include them at their current value in 'United States Government obligations' (asset item 2) and interline them in Schedule B of condition reports, with a corresponding credit to undivided profits. The current value may be based on the maturity, or estimated maturity, of the bonds and the approximate current yield on Government obligations of similar maturity. The discount on the bonds, i.e., the excess of par value over the value at which the bonds are put on the books, should be accumulated into earnings on securities over the life, or estimated life, of the bonds or until they are sold.

"Excess profits tax refund bonds purchased from others, upon becoming negotiable after the declaration of the cessation of hostilities, should be entered at the purchase price. Earnings on bonds thus acquired should be handled in the same way as suggested in the preceding paragraph."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

Ronald Ransom  
Vice Chairman.