

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, February 26, 1945, at 10:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thurston, 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 February 24, 1945, were approved unanimously.

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

"In accordance with the request contained in Mr. Diercks' letter of February 21, 1945, the Board approves the designation of the following employees of the Detroit Branch as special assistant examiners for the Federal Reserve Bank of Chicago:

F. F. Woodling  
R. J. Dubois  
E. M. Nebus  
E. W. Pleger  
A. O. LaFramboise  
J. J. Srp  
L. L. Landry  
C. E. Lutz  
N. F. Zink"

Approved unanimously.

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Letter to the board of directors of "The Real Estate Trust Company of Philadelphia", Philadelphia, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 6 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 Philadelphia. The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to act as surety in certain circumstances. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Real Estate Trust Company of Philadelphia', Philadelphia, Pennsylvania, 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 Secretary of Banking for the Commonwealth of Pennsylvania, for his information.

"Since the amount of estimated losses shown in the report of examination for membership is reported to have

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"been charged off or otherwise eliminated, the usual condition of membership requiring the elimination of losses has not been prescribed."

Letter to the board of directors of the "Security Savings Bank", Birmingham, Alabama, 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 Atlanta.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Security Savings Bank', Birmingham, Alabama, 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 Superintendent of Banks for the State of Alabama, for her information.

"Since the losses estimated in the report of examination for membership are reported to have been charged off, the usual condition of membership requiring the elimination of losses has not been prescribed."

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

"Reurtel Board extends to April 4, 1945, time within which First State Bank of Chinook, Chinook, Montana, may accomplish membership."

Approved unanimously.

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Letter to Davies & Davies, Attorneys at Law, Paterson, New Jersey, reading as follows:

"Re: Hearing to Determine Whether John Agnew  
and F. O. Fayerweather Should Be Removed  
from Office as Directors of the Paterson  
National Bank, Paterson, New Jersey

"This letter is directed to you as attorneys of record for the above-named respondents. The Transcript of the Record in the above matter has been filed with the Board by the Hearing Officer in accordance with his commission.

"The Board has noted that you have filed written briefs. There is a suggestion in the record, however, which would indicate that you may wish to argue the matter orally. If you should wish to make an oral argument and will so advise the Board, it will set such argument for 10:30 a.m., Monday, March 12, 1945, at its offices in Washington, D. C.

"Kindly advise the Board as promptly as possible."

Approved unanimously.

Letter to Honorable Robert F. Wagner, Chairman, Committee on Banking and Currency, United States Senate, reading as follows:

"This refers to your request of February 13, 1945, for an opinion with respect to the merits of the bill S. 511 'To amend section 13b of the Federal Reserve Act, as amended', which was introduced by you on February 12.

"This bill would authorize the Federal Reserve Banks to guarantee financing institutions against loss on loans made to business enterprises or to make commitments to purchase such loans from financing institutions. The percentage of the loan to be guaranteed would vary with specific cases, but in no case could it exceed 90 per cent. In other words, the commercial bank would be required to assume at least 10 per cent of the risk involved in any loan.

"It will be recalled that the Baruch-Hancock Report on War and Postwar Adjustment Policies of February 19, 1944, recommended that the Federal Reserve System's

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"authority to make industrial loans or commitments be expanded and liberalized to provide a permanent source of credit for small and medium-sized enterprises, such loans to be made in such a way as to supplement and not to compete with private investment. As you know, the Wagner-Spence Bill in the last Congress, which was substantially the same as S. 511, was strongly recommended by Honorable James F. Byrnes, Director of War Mobilization and Reconversion. In his report to the Congress dated January 1, 1945, it is stated on page 14:

'Small business has been the backbone of American prosperity. Its future requires the establishment of a readily available source of credit. The Wagner-Spence bill has this purpose in view. In revoking the present authority of the Federal Reserve banks to make loans direct to industry, it substitutes authority for them to guarantee the principal and interest of loans by commercial banks to business enterprise. It, or other forms of legislation to this end, deserves the immediate consideration of the Congress.'

"The Board believes that in many cases the financial needs of worthy industrial enterprises, particularly during the reconversion period, will represent degrees of credit risk that banks ordinarily should not be expected to assume. Such needs may be met either by encouraging the private banking and credit system of the nation to perform the task or by further expansion in direct lending by the Government. The Board emphatically favors the former course.

"The bill S. 511 would authorize the Federal Reserve Banks to guarantee, up to 90 per cent, loans made by private banking institutions to business enterprises, rather than to make direct loans to such enterprises. Thus, the Federal Reserve Banks would not be in competition with the private banking system. On the contrary, the bill would encourage a greater flow of funds from the private banking and credit system into those marginal credit risks which banks would not assume without a guarantee. All loans would originate with banks or other private financing institutions. Consequently the operation of this plan of financing would be decentralized throughout the United States, but with the cooperation of the Federal Reserve Banks and under the

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"general supervision of the Board of Governors of the Federal Reserve System.

"No new appropriation would be required by this bill.

An appropriation made by Congress in 1934, amounting to \$139,000,000 would be adequate to guarantee a total of more than \$500,000,000 of loans outstanding at any one time.

"Because of the experience of the Federal Reserve Banks in this field, particularly in connection with the administration of the V-loan program inaugurated under the President's Executive Order No. 9112 and the more recent T-loan program authorized by the Contract Settlement Act of 1944, the guaranteeing, up to 90 per cent, of loans to business enterprises contemplated by this bill could be put into effect without delay and the credits consummated expeditiously.

"In further explanation of the Board's views on this subject, there is enclosed a copy of a letter dated December 18, 1944, which the Board addressed to Senator James E. Murray, Chairman of the Special Committee to Study Problems of American Small Business, in reply to a circular letter which was sent by Senator Murray to individual members of the Board of Governors asking for expressions of opinion on reconversion credit legislation for small business.

"For the reasons above stated, the Board of Governors favors S. 511 and hopes that it will be enacted."

Approved, Mr. McKee not voting.

Letter to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letters of January 30 and February 19, 1945, with regard to the action taken by the board of directors on January 29, 1945, in authorizing the remodeling of the present building and construction of an extension thereof on the land purchased last year on Pearl and Milk Streets.

"The Board has considered the matter in the light of the building plans and the information submitted with your letters and will interpose no objection to the expenditure of approximately \$2,000,000 as outlined in the approximate budget furnished by the architects. It is

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"assumed that your Bank is satisfied that these plans will furnish the additional floor space and improved working conditions which will be needed in order to provide adequately for the performance of the Bank's functions. It is, however, understood that your Bank contemplates deferring the execution of this project until there appears to be such a change for the better in manpower and material conditions as to justify beginning the construction work involved and that you will also follow the procedure of obtaining competitive bids from a carefully selected list of qualified firms, awarding the contract to the lowest bidder.

"It will be appreciated if you will keep the Board advised of important developments in connection with this program."

Approved unanimously.

Memorandum dated February 26, 1945, from Mr. Hooff, Attorney, recommending that there be published in the March 1945 issue of the Federal Reserve Bulletin a statement in the form attached to the memorandum with respect to the following subject:

Real Estate Loans  
Farm and Business Loans to Veterans

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. S. ...  
Chairman.