

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

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

Mr. Morrill, Secretary
Mr. Hammond, 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 April 2, 1945, were approved unanimously.

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

"The Board of Governors of the Federal Reserve System has considered the recommendation of the Board of Directors of your Bank, contained in Mr. Diercks' letter of March 22, 1945, and pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Lincoln State Bank, Milwaukee, Wisconsin, to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the member bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

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Letter to Mr. Dunn, Vice President and General Counsel of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of March 22, 1945, addressed to Mr. Vest, enclosing a copy of a letter received by you from the Fidelity Savings Bank, Ottumwa, Iowa, dated March 14, 1945, regarding the question whether savings passbooks of a member bank must include a provision by which the bank reserves the right to require not less than 30 days' written notice of intended withdrawals or whether the bank may rely upon a State statute giving savings banks the right to require 60 days' written notice of withdrawals, without reference to such statute in the passbooks.

"Technically, the definition of the term 'savings deposit' contained in section 1(e) of the Board's Regulation Q may be regarded as not requiring a savings passbook to include an express provision reserving the bank's right to require written notice of withdrawal, but as requiring only that the deposit shall be one with respect to which the bank has the right to require not less than 30 days' notice in writing of an intended withdrawal. If that right is given to the bank by State statute, then, under such a literal interpretation, a deposit might be regarded as complying with the requirements of Regulation Q, even though no reference is made to the statute in the savings passbooks.

"However, the Board believes that, for obvious reasons, it is desirable that savings depositors be definitely advised by provisions in their passbooks that the bank reserves the right to require not less than 30 days' written notice of intended withdrawals; and it is understood that this is the practice followed by most banks in the country. Under its statutory power to define savings deposits, the Board could of course amend its Regulation Q and Regulation D to require that such express reservation of the right to require notice shall be included in passbooks representing savings deposits.

"As indicated in its letter of April 14, 1941, the Board feels that a passbook provision merely referring to a State or Federal statute relating to withdrawal of savings deposits does not adequately inform depositors as to the notice which may be required by the bank before any withdrawal may be made. However, the Board is not disposed to object to such a provision if the applicable

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"statute, as a matter of fact, gives the bank the right to require not less than 30 days' written notice of intended withdrawals.

"The Board feels, however, that a deposit represented by a passbook which makes no reference at all to such a statute does not comply with the spirit of the requirements of Regulation Q, even if it can be regarded as a technical compliance. Accordingly, the Board believes that such practice should be discouraged as far as possible. As such cases may come to your attention, it is suggested that the banks be requested to change their passbooks so as to reserve the right to require not less than 30 days' written notice, either by stamping the passbooks with a notation to that effect or by reprinting the passbooks on the first occasion when it becomes possible to do so without undue expense or inconvenience."

Approved unanimously.

Letter to the board of directors of the "Harlingen State Bank", Harlingen, Texas, 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 Dallas. The letter also contained the following special comment:

"It appears that the bank possesses the power to issue and sell investment certificates, which power is not necessarily required in the conduct of a banking business. Attention is called to the fact that if the bank should desire to exercise such power it will be necessary under condition numbered 1 to obtain the permission of the Board of Governors before doing so."

Approved unanimously, for transmission through the Federal Reserve Bank of Dallas.

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Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of March 16, 1945, addressed to Governor Ransom, enclosing a copy of a letter received by you from Mr. C. L. Hufsmith, President of the First National Bank, Palestine, Texas, regarding the question whether the allowance of an 'earnings credit' to depositors constitutes a payment of interest on demand deposits.

"This question is one which has been the subject of correspondence between Mr. Hufsmith and Mr. Dreibelbis during the past few months; and for your information there are enclosed copies of letters addressed to Mr. Hufsmith by Mr. Dreibelbis on January 11, and March 19, 1945, discussing the legal distinction between the failure of a bank to make a service charge and the absorption by a bank of an exchange charge.

"As you know, the Board of Governors has taken the position that there is no payment of interest and consequently no violation of law where a bank uses a plan of account analysis which provides for a setoff of the theoretical earning value of a depositor's account against the cost of the various overhead services performed by the bank in handling the account. (1944 Federal Reserve Bulletin, p. 13).

"The basis of the Board's ruling is that in the case of service charges the bank merely omits to make a charge, and therefore does not make a payment to its depositors as it does when it absorbs exchange charges. This distinction is elaborated in the enclosed letters from Mr. Dreibelbis to Mr. Hufsmith.

"When a bank pays an exchange charge on a check, it incurs an out-of-pocket expense on behalf of the depositor of the check. If the bank absorbs that expense by crediting its depositor with the full amount of the check, it makes a payment to the depositor in the amount of the exchange absorbed; and if the payment is made as compensation for the use of the depositor's balance, then, under general principles established by the courts, it constitutes a payment of 'interest'. On the other hand, a service charge is one which the bank makes to compensate

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"itself for overhead expenses connected with the handling of the depositor's account. If the bank offsets or credits the theoretical earning value of the account against the amount of such expenses, it makes no payment to the depositor; it merely omits to make a charge for its services which it has a right to make.

"As indicated in Mr. Dreibelbis' letter of March 19, the bank does not owe its depositor the amount of any excess of the theoretical earning value of an account over the expense connected with it; the existence of the excess merely indicates to the bank that it need not make a service charge against the particular account for the period covered by its analysis and the amount of the excess is immaterial. If the bank actually pays the amount of the excess to the depositor, instead of merely omitting to make a service charge because of the existence of the excess, a payment is of course involved.

"We have noted with interest the statements in your letter regarding the conference had by you with Mr. H. Webb Madison, President of the Bastrop Bank and Trust Company, Bastrop, Louisiana. It is encouraging to learn that a banker who has heretofore opposed par clearance is now considering the possibility of applying for membership in the Federal Reserve System. The fact that Mr. Madison is President of the Louisiana Bankers Association might very well have considerable influence if his bank should elect to remit at par or should apply for membership in the System."

Approved unanimously.

Letters to Messrs. Hult, Bryan, Dillard, Hitt, Gentry, and Slade, Vice Presidents of the Federal Reserve Banks of Boston, Atlanta, Chicago, St. Louis, Dallas, and San Francisco, respectively, reading as follows:

"It has been called to the attention of the Board that some lenders have been making a practice of accepting inadequate statements from borrowers in connection with the exemption of loans for educational, hospital, dental, and funeral expenses under section 8(c) of Regulation W. The inadequacy usually consists of a failure to state the specific facts which are relied upon to bring the loans within the scope of this section. For example,

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"some statements merely repeat the language of clauses (1), (2), and (3).

"The suggestion has been made that the situation might be improved if the Board issued a ruling indicating the kinds of facts called for by the regulation. The ruling could cite particular cases as examples and show how they should be handled.

"In developing this ruling, the Board would appreciate your advice as to the types of cases that should be covered and the extent of the factual information that should be required. Your suggestions based on first-hand contact with this problem in the field will be most helpful.

"One of the criteria by which such information requirements would be tested is whether or not sufficient facts are made available so that an investigator would be put in a position both to judge if the borrower and the lender have been reasonable in their conclusions that the exception is applicable and to check the accuracy of the facts stated.

"As a means of making the inquiry more concrete but without limiting the scope of your comment, we suggest that some of the questions that may be involved are as follows: Should the statement show the name and address of the doctor? Should it show the name and address of the school, the course taken or to be taken, the period covered or to be covered, the breakdown of expense into tuition, laboratory fees, books, and other expenses? Should the statement give the prospective annual income of the borrower and of his family together with the sources of each part? Should it contain an abbreviated budget of expenditures with an indication of fixed obligations? Should the borrower be asked to state whether or not he has other funds, such as a bank deposit, that could be used to pay for the expenses? Should he be asked whether or not the expenses were covered by insurance?

"One of the most difficult problems will be to make the requirements sufficiently comprehensive so that adequate information will be obtained and yet not so extensive that the procedure will be unreasonably burdensome."

Approved unanimously.

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

"Because of serious administrative difficulties and extensive trade dissatisfaction with the provisions of Regulation W as they apply to credits for repairs, alterations and improvements of residential property, consideration is being given to a proposal that the regulation be amended to eliminate the present exceptions affecting this field, to lengthen the maximum maturity to 18 months, and to free from the down payment requirement those articles in the field that are now subject to such a requirement.

"The exceptions to be eliminated cover (1) credits secured by bona fide first liens on improved real estate duly recorded, (2) credits to remodel or rehabilitate any structure designated by the Administrator of the National Housing Agency as being for 'defense housing', and (3) credits classified as 'fuel conservation' credits.

"A draft of a proposed amendment to accomplish these purposes is enclosed and the Federal Reserve Banks are requested to make comments and suggestions on the draft and to advise the Board of their own recommendations.

"In formulating your comments and recommendations you are at liberty to consult with interested persons in your district, but it will be appreciated if the proposals and discussions are treated as matters not for publication."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Ronald Ransom
Vice Chairman.