A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 8, 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. Hammond, Assistant Secretary
Mr. Thurston, Assistant to the Chairman
Mr. Vest, General Attorney
Mr. Wyatt, General Counsel

Telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on June 5, by the Federal Reserve Bank of Atlanta on June 6, by the Federal Reserve Banks of New York, Philadelphia, Richmond, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco on June 7, 1945, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Evans referred to the Board's letter of February 11, 1944, to Mr. Black, Governor of the Farm Credit Administration, in which the position was taken that the Board would have no objection to legislation which would fix the maximum amount of a farm loan by a Federal Land Bank on first mortgage security at 65% of its normal agricultural value, with the understanding that in the new legislation the authority for the making of second mortgage loans by the Land Bank Commissioner would be terminated. Mr. Evans said that at the time the Board's letter was sent the officials of the Farm Credit Administration were in entire agreement with the position set forth therein but that because of subsequent increases in the prices of farm lands it was felt that, if the Farm Credit Administration was to be able to do its share of the farm financing, it would be necessary to retain for a further temporary period the authority of the Land Bank Commissioner to make second mortgage loans. This matter, he said, was discussed informally with members of the Board and the representatives of the Farm Credit Administration were informed that the Board did not care to change its position on the matter but would not express an opinion with respect to it unless such an opinion were asked. Mr. Evans went on to say that legislation as passed by Congress renewed the authority of the Land Bank Commissioner for one year and it was made clear by the agricultural leaders in Congress during the debates on the legislation that it was their desire to eliminate the authority for second mortgage loans as soon as possible and that the renewal for one year was merely for the purpose of tiding over the existing situation. It was Mr. Evans' opinion that the Board should not change the position set forth in its letter of February 11, 1944, and that the authority of the Land Bank Commissioner to make second mortgage loans should be eliminated from the law as promptly as possible. Mr. Evans' statement was made merely for the information of the members of the Board as no action with respect to the matter was called for at this time.

Mr. McKee reported that he, Mr. Morrill, and Mr. Pollard, Assistant Director of the Division of Examinations, went to Memphis, Tennessee, on Tuesday, June 5, to attend a meeting of representatives of banks in most of the cities where the absorption of exchange charges has presented a problem in view of the provision of section 19 of the Federal Reserve Act prohibiting the payment of interest on demand deposits, that the meeting was a very satisfactory one, and that shortly before the end of the meeting, Sterling B. Cramer, First Vice President of the Fifth-Third Union Trust Company, Cincinnati, Ohio, offered a motion which, after being seconded by Ralph C. Gifford, Chairman, First National Bank, Louisville, Kentucky, and after amendments which were accepted by them, was put by the chair to a voice vote and was adopted without a dissenting vote. It was made clear in the discussion, Mr. McKee said, that the motion was regarded as an informal expression of the prevailing sentiment of those present, without binding effect on anyone, and that it was understood that the final decision would be made by the Board of Governors after being advised as to the views expressed at this meeting. The motion, as amended, was to the following effect:

> "It is the sense of this meeting that the Board of Governors of the Federal Reserve System should make a definite regulation, prescribing $2, or such other amount as the Board of Governors may decide upon, for any one customer in any month as the limit for trivial items, with August 1, 1945 as the uniform deadline for all member banks, and that the Board of Governors should endeavor to obtain the cooperation of the Federal Deposit Insurance Corporation along the same lines as to all nonmember banks."

For the information of the members of the Board, Messrs. McKee and Morrill reviewed in some detail the high lights of the meeting and a memorandum with respect to the meeting and a list of the names of those who were in attendance have been placed in the Board's files.

Mr. Morrill stated that, while the motion suggests that the Board should make a "definite regulation", it was clearly understood that the form in which the Board's action was to be taken was for determination by it. He also said that Mr. Robertson, Deputy Comptroller of the Currency, who had attended the meeting as the representative of that office, had asked for an opportunity to go over any statement or ruling proposed to be issued by the Board.

At the conclusion of the discussion, upon motion by Mr. Ransom, Mr. McKee was requested, with the assistance of Messrs. Morrill and Vest, to prepare the necessary documents to carry out the action contemplated by the motion adopted at the Memphis meeting, it being understood that Mr. Robertson of the Comptroller's Office would be given an opportunity to make suggestions with respect to the documents, and that, before final action was taken by the Board, Mr. McKee would discuss the matter with the Chairman of the Federal Deposit Insurance Corporation as contemplated by the motion.

For the information of the members of the Board, Chairman Eccles made substantially the following statement with respect to the present status of the proposed executive order relating to real estate mortgage credit:

The National Housing Agency and possibly some of the other Government agencies which might be affected by the order would like to get certain exceptions written into any regulations that might be issued under the order and in that connection have been talking to Mr. Salant, Economic Adviser in the Office of Economic Stabilization. I understood that Mr. Salant was working on a memorandum which would express these views and would be, in effect, at least a tentative understanding of what it was expected would be provided in the regulations that the Board might issue. In that situation, and inasmuch as Mr. Davis, Director of Economic Stabilization, was out of the city, I talked with Mr. Salant and learned that what he was preparing was not a memorandum of the kind referred to but one to be used by Mr. Davis in presenting the matter to the President of the United States so that he would be fully informed as to just what was contemplated. I told Mr. Salant that I did not want the situation with respect to possible exemptions from the regulations to become crystalized, that I would object very strenuously to having any exceptions written into the executive order, and that, if the Board of Governors is to be responsible for administering the order, it would not want any prior understandings as to what the regulations were to contain, as it was expected that the regulations would be prepared following consultations with interested agencies, both public and private and the Board would not want its hands tied in advance. The order is still in Mr. Davis' office and has not yet been presented to the President.

I talked to Mr. Vinson, Director of Mobilization and Reconversion, yesterday about the matter and repeated the suggestion previously made that he, Mr. Davis, and I should get together and agree upon the statement that should be made to the President, in which it could be made perfectly clear that the executive order is a part of a larger program which, in addition to limitations on real estate mortgage credit, contemplated increased margin requirements and a strengthening of the tax on capital gains. This statement should also make it clear that little can be done in the credit field alone, that there probably will be strong protest against the executive order by lending institutions, that the order should not be put into effect until after the President had discussed the matter with Congressional leaders, and that, because of the fact that it was not believed that a great deal would be accomplished by regulating credit extensions alone, the Board was not seeking the authority that would be granted by the proposed order, but that, if it were the view of the responsible officials of Government that the order should be issued, the Board would do its best to carry out its provisions.

I also raised with Mr. Vinson the question whether the issuance of the executive order at this time might not be bad timing in the light of the contemplated large cutbacks of war production with their resulting unemployment which is bound to have a dampening effect on private spending, on activity in the securities' market, and the inflationary pressure on the farm and urban real estate markets. Inasmuch as the executive order is late anyway, it might be better to let the matter stand for a few weeks longer to determine more definitely whether there is any real necessity for its issuance.

At this point Messrs. Vest and Wyatt withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 7, 1945, were approved unanimously.

Memorandum dated June 6, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective at the beginning of the pay roll period following approval by the Board:

Name	Title	Salary Increase From	To
White, Mary	Clerk	$1,920	$2,100
Faulkner, Kathryn Stevens	Clerk	1,860	2,000
Freedman, Loretta	Clerk	1,680	1,800
Davis, Alice L.	Secretary	1,920	2,100

Approved unanimously, effective June 16, 1945.

Memorandum dated June 4, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective June 16, 1945:

Name	Title	Salary Increase From	To
Herbert W. Young	Mechanical Superintendent	$3,200	$3,400
Charles D. Lindamood	Operating Engineer	2,700	2,800
Joseph T. Glotfelty, Jr.	Operating Engineer	2,600	2,700

Approved unanimously.

Telegram to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference membership application of Switz City Bank, Switz City, Indiana. Advice received today from Federal Deposit Insurance Corporation that conditions set forth in its letter of May 3, 1945, a copy of which accompanied our letter of May 4 relating to the application, have been complied with. Accordingly, arrangements may now be made for completion of the bank's admission to membership in the System."

Approved unanimously.

Letter to Mr. A. G. Hauck, Manager, A. G. Hauck Company, Cincinnati, Ohio, reading as follows:

"This is with reference to your letter of June 1, 1945, relative to Amendment No. 16 to Regulation W, effective June 11, 1945, which eliminated a provision which had previously exempted loans secured by first liens on improved real estate duly recorded.

"The purpose of this amendment was to simplify the terms of the regulation as it applies to home repairs and improvements so that some work would not be subject to severe terms while other work of the same kind was permitted to be treated very liberally. In our opinion the change will have no important effect upon the total amount of credit that can be obtained for this purpose and will not hamper the distribution of all the materials that will be available. In your own business of roofing and siding those customers who could not for one reason or another qualify under the first lien exemption can now be given 18 months instead of the former limit of twelve months.

"Furthermore, we believe you will find that the elimination of the first lien exemption will not affect financing as much as it now appears to you. We suggest that you discuss the matter with the financial institution with which you arrange your financing. Also, you or that institution may wish to communicate with the Cincinnati Branch of the Federal Reserve Bank of Cleveland which has responsibility for administration of Regulation W in your district."

Approved unanimously.

Memorandum dated June 6, 1945, from Mr. Smead, Director of the Division of Bank Operations, reading as follows:

"Beginning in 1936, with Board approval, the American Bankers Association has been sending members of their staff each year to the Board's offices to copy our recapitulation sheets (sample attached) showing annual earnings statistics of State member banks, by size of bank and by States. The same arrangements were made with the offices of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The resulting ratios computed from these data have been published in pamphlet form by the Bank Management Commission of the ABA (1943 pamphlet attached) under the title, '<u>Earnings and Expenses of all Insured Commercial Banks in 19__</u>'.

"This year, presumably to eliminate the transportation involved and to save manpower, Mr. Melvin C. Miller, Secretary, and Mr. J. O. Brott, Assistant General Counsel, have proposed in telephone conversations with this office to borrow these sheets and photostat them. We understand that the offices of the Comptroller and the FDIC are agreeable to this proposal if similar arrangements are made at all three offices.

"In the case of State member banks, there are approximately 300 forms containing the desired data. In most cases these forms represent totals, in thousands of dollars, of three or more State member banks in the size group. Our forms do not indicate the names of the individual banks included in the totals. The ABA has always observed the restriction stated in the original arrangement of not publishing figures for any size group containing less than three banks.

"In the circumstances, there seems to be no objection to lending these forms to the ABA to be photostated and, if the Board approves, we shall make the necessary arrangements."

Approved unanimously.

Letter to the Secretary of State reading as follows:

"In our letter of May 25 on the subject of the trip to be made by three Federal Reserve representatives to

"Europe, Russia was included among the countries that we wished to have visited if possible. Subsequently we were informed that the inclusion of Russia would have to be specifically approved on the basis of a statement to be cabled to Moscow as to the particular purposes of the visit. The following is offered for that purpose:

"The State Bank of the USSR is a correspondent of the Federal Reserve Bank of New York and maintains balances with it. The Federal Reserve Bank, which, under statutory authorization, maintains such accounts with numerous central banks, finds from experience that their operation is facilitated by consultation in person with its correspondents so that a closer understanding can be developed on both sides as to the conditions affecting the transactions between them. It is for this purpose that we are now arranging for visits to be made during the next few weeks to other central banks of Europe by Dr. E. A. Goldenweiser, Economic Adviser to the Board of Governors of the Federal Reserve System, Mr. L. W. Knoke, Vice President of the Federal Reserve Bank of New York in charge of its Foreign Department, and Mr. Walter H. Rozell, an assistant to Mr. Knoke. We believe it would be helpful both to ourselves and to the Russian authorities if Dr. Goldenweiser, Mr. Knoke, and Mr. Rozell might also visit Moscow for interviews with the officers of the State Bank of the USSR and with other state officials concerned with economic and monetary relations between Russia and the United States; and we hope that the Russian authorities will agree that the interviews will be of mutual advantage.

"We shall be obliged if the Department of State will facilitate the proposed visit of our representatives to Russia; and we shall be glad to furnish such additional information as may be desired."

Approved unanimously.

Memorandum dated June 7, 1945, from Mr. Nelson, Assistant Director of the Division of Administrative Services, submitting a voucher in the amount of $68.85 covering expenses incurred by Glenn M. Goodman, a Federal Reserve Examiner in the Division of Examinations, in connection with his trip to the Philippines pursuant to the Board's authorization of April 5, 1945, and recommending that payment of the voucher be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.