

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, July 7, 1945, at 11:15 a.m.

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

Mr. Carpenter, Secretary
Mr. Connell, General Assistant, Office
of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Thomas, Director of the Division of
Research and Statistics
Mr. Vest, General Attorney

Chairman Eccles referred to the discussion yesterday with Secretary of the Treasury Morgenthau with respect to changes that should be made in Treasury and Federal Reserve policy in connection with the Treasury financing program and said that, for the reasons that had been discussed at the meeting of the Federal Open Market Committee in June, when the Presidents of all the Federal Reserve Banks were present, he had taken the position that the preferential discount rate on advances secured by Government obligations maturing or callable in one year or less should be eliminated, and Mr. Sproul had suggested that the rate be increased to $3/4$ per cent. Secretary Morgenthau requested that a memorandum be submitted to him covering all of the actions which it was felt should be taken at this time, including the action on the preferential discount rate. Chairman Eccles stated that such a memorandum was being prepared and, in order that the System might be in a position to

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act promptly on the preferential rate, he would suggest that a telegram be sent to the Presidents of the Federal Reserve Banks asking that they advise the Board of the views of their Banks as promptly as possible.

Chairman Eccles stated that he felt that action on the preferential rate should be uniform at all Reserve Banks and that if a majority of the Banks were favorable to taking action he would favor advising the dissenting Banks of that situation and, if they still were unfavorable, to say to them that if they did not act the Board would determine what the rate at those Banks should be.

Mr. McKee inquired whether the discussions of the members of the executive committee with representatives of the Treasury yesterday had brought out any new points on the preferential discount rate, and Chairman Eccles said that it had been made clear that if action were taken on the rate it would be understood that the System would support the certificate market to the extent necessary to maintain stability, and that the prices at which certificates would be purchased would be allowed gradually to decline to a point where the policy of the System would be to purchase certificates at prices which would keep them from falling below par. Chairman Eccles also said that the action contemplated by the System would be outlined in the memorandum to Secretary Morgenthau to which reference had been made earlier in this meeting and in which it would be stated that the System contemplated this action, but that consideration would be given to any objections on the part of the Secretary. If the Treasury should offer an objection, Chairman Eccles added, he would favor deferring action in which event the

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record would show that it was not taken because of the position of the Treasury.

Mr. McKee questioned whether, instead of sending a telegram to the Presidents, it would be better to send them a statement of the reasons for and against action on the preferential rate. It was agreed that it would take some time to prepare a statement that would be acceptable to everyone, and it was suggested that the telegram to the Presidents proposed by Chairman Eccles could be sent, and that as soon as the memorandum being prepared for the Secretary of the Treasury was completed copies could be sent to the Presidents for their information.

In this connection it was stated that several of the Federal Reserve Banks had submitted during the current week the usual advice of the establishment without change of the rates of discount and purchase in their existing schedules, and there was a discussion of whether the Board should approve the continuation of these rates or whether approval should be withheld until a decision was made on the preferential rate. It was pointed out that the procedure for the consideration of action on the preferential rate would be the same whether Board approval of the action of the seven Banks were given or withheld as it would be necessary in any event for the boards of directors of the Banks to consider what should be done on the preferential rate.

Thereupon, upon motion by Mr. Ransom, unanimous approval was given to 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

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and Philadelphia, respectively, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, 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 Banks of St. Louis and San Francisco on July 3, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and San Francisco on July 5, and by the Federal Reserve Banks of Boston and Chicago on July 6, 1945, of the rates of discount and purchase in their existing schedules.

Upon motion by Mr. Ransom, unanimous approval was also given to the following telegram to the Presidents of all of the Federal Reserve Banks:

"Consideration is being given to question of elimination of special discount rate on advances secured by Government obligations maturing or callable in one year or less. You will recall discussions when the Presidents were here in June. Board would favor such action effective uniformly for all Reserve Banks. Please advise views your bank as soon as possible."

At this point Messrs. Thomas and Vest withdrew from the meeting.

The action stated with respect to each of the matters herein-after 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 July 5, 1945, were approved unanimously.

Memorandum dated July 3, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Miss Jean A. Gough be appointed as a clerk-typist in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,704

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per annum, plus supplemental compensation for overtime of \$255.60 on the basis of a 44-hour workweek, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination, with the understanding that if anything derogatory develops in the investigation of her references her services may be discontinued. The memorandum stated that Miss Gough would become a member of the Board's retirement system unless investigation, now in progress, develops that she has funds on deposit with the Civil Service Retirement System, in which event she would continue in that System.

Approved unanimously.

Memorandum dated July 5, 1945, from Mr. Ellis, Assistant Director of the Division of Research and Statistics, recommending that Miss Joan M. Gough be appointed as a clerk-typist in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,704 per annum, plus supplemental compensation for overtime of \$255.60 on the basis of a 44-hour workweek, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination and subject to a satisfactory check of her references. The memorandum stated that Miss Gough would become a member of the Board's retirement system unless investigation, now in progress, develops that she has funds on deposit with the Civil Service Retirement System, in which event she would continue in that System.

Approved unanimously.

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Memorandum dated July 5, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that, in accordance with the action taken at the meeting of the Board on July 2, 1945, with respect to minimum increases in aggregate compensation of employees receiving \$1,800 or less, the basic annual salary of each of the following employees in that Division be increased as shown below, effective July 1, 1945. Mr. Bethea's recommendation had been approved by the Personnel Committee:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Emma Shinn	Cook	\$1,902	\$1,920
Pearl Jones	Cook	1,836	1,860
Eva Brown	Baker	1,770	1,800
Myrtle Henson	Cafeteria Helper	1,704	1,740
Katie Gill	Cafeteria Helper	1,572	1,620
Della Payne	Cafeteria Helper	1,506	1,560
Corrie Holliday	Cafeteria Helper	1,440	1,500
Dolly Wakefield	Cafeteria Helper	1,440	1,500

Approved unanimously.

Letter to Mr. Rouse, Vice President at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of June 30, 1945, submitting for the consideration of the Board of Governors the proposed merger of the Rochester Trust and Safe Deposit Company, Rochester, New York, into the 'Lincoln-Alliance Bank and Trust Company,' Rochester, New York, under the title of 'Lincoln Rochester Trust Company.'

"The Board concurs in your opinion that the proposed merger will not result in a change in the general character of the assets nor broadening in the functions now exercised by the Lincoln-Alliance Bank and Trust Company within the meaning of condition of membership numbered 2 to which it is subject and, in accordance with your recommendation, will interpose no objection to completion of

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"the transaction substantially as proposed. It is understood that approval of the appropriate State authorities has been obtained and that counsel for the Reserve Bank is to review the steps taken to accomplish the absorption and satisfy himself as to the legality thereof."

Approved unanimously.

Letter to Mr. N. C. Lenfesty, Vice President and Cashier of The National City Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of June 28, 1945, advising that the branch of your bank located in Manila, Philippine Islands, reopened and resumed operations on the date of your letter."

Approved unanimously.

Telegram to Mr. Wayne, Vice President at the Federal Reserve Bank of Richmond, reading as follows:

"Retel fifth. Board concurs in your opinion that proposed purchase of assets and assumption of liabilities of 'The Baltimore Commercial Bank,' Baltimore, Maryland, by 'Union Trust Company of Maryland,' Baltimore, Maryland, will not result in any change in the general character of business nor in scope of corporate powers exercised by Union Trust Company of Maryland within the meaning of condition of membership numbered 1 to which latter institution is subject. Board interposes no objection to completion of proposed transaction, including acquisition of the banking premises owned by The Baltimore Commercial Bank, provided prior approval of the appropriate State authorities is obtained and counsel for the Reserve Bank will review steps taken to accomplish the absorption and satisfy himself as to the legality thereof."

Approved unanimously.

Letter to Mr. Flanders, President of the Federal Reserve Bank of Boston, reading as follows:

"There is enclosed a copy of a letter received by the Board from Mr. E. A. Hillbom, Cashier, First National Bank, Wallingford, Connecticut, dated June 29, 1945,

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"requesting an opinion as to whether the enclosed hypothetical analysis of accounts used by that bank involves a payment of interest on demand deposits.

"It will be appreciated if your Bank will make appropriate reply to Mr. Hillbom's inquiry in the light of the Board's letters of December 9, 1943 (S-713; 1944 Federal Reserve Bulletin 13) and February 22, 1944 (S-736), regarding this question. Those letters, of course, have not been affected by the Board's recent letter of June 22, 1945, with respect to the absorption of exchange charges. It will be noted that the bank's analysis of accounts includes exchange charges paid by the bank for its customer; and in this connection attention is called to the comment made in the second paragraph of the Board's letter of February 22, 1944, regarding the inclusion of exchange charges in such an analysis.

"We have not advised Mr. Hillbom that his letter is being referred to you."

Approved unanimously, together with a letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows, it being understood that similar inquiries received in the future would be handled in the same manner as the letter from Mr. Kidd:

"There is enclosed a copy of a letter received by the Board from Mr. H. M. Kidd, Cashier, First National Bank, Dover, Ohio, dated June 27, 1945, regarding the question whether service charges involve a payment of interest on demand deposits.

"It will be appreciated if your Bank will make appropriate reply to Mr. Kidd's inquiry in the light of the Board's letters of December 9, 1943 (S-713; 1944 Federal Reserve Bulletin 13) and February 22, 1944 (S-736), regarding this question. Those letters, of course, have not been affected by the Board's recent letter of June 22, 1945, with respect to the absorption of exchange charges.

"We have not advised Mr. Kidd that his letter is being referred to you."

Letter to Congressman Everett H. Dirksen reading as follows:

"Chairman Eccles has asked me to reply to your letter of June 19, 1945, which enclosed a letter from the Wisconsin Savings and Loan League of Milwaukee, Wisconsin, relative to

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"a recent amendment (Amendment No. 16) to the Board's consumer credit regulation, Regulation W.

"This regulation, as you know, has been part of the Government's anti-inflation campaign ever since 1941. The purpose of the recent amendment, taken as a whole, 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. Before the Board adopted this amendment, on May 22, we had a number of letters from lending institutions to much the same effect as your correspondent's letter and in addition these views were presented orally and were carefully considered by the Board before the amendment was adopted.

"Your correspondent cites a case in which an individual was adding another room to his home and, feeling he could not pay in 18 months, cashed some war bonds. Getting credit is just as inflationary as cashing war bonds. The purpose of Regulation W is to restrict credit and, when credit is extended for purposes covered by the regulation, to encourage the use of current income of the borrower to pay the indebtedness within a short period. This operates to limit the spending of income for further purchases at a time when, because of a serious shortage of materials and labor, it would be better if the purchases were not made either on credit, or for cash.

"The actual effect of the regulation in this particular case may have been less restrictive, however, than your correspondent has supposed. If, as is likely, the original loan had been made to finance the purchase of a home, the lender, if he chose, could have reduced or postponed payments on that obligation, so that the borrower would have been better able to meet the payments on the new advance under the 18 months' rule.

"We are returning the letter from the Wisconsin Savings and Loan League."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.