

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 9, 1945, at 4:00 p.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. Smead, Director of the
Division of Bank Operations
Mr. Vest, General Attorney
Mr. Horbett, Assistant Director
of the Division of Bank Operations
Mr. Piser, Chief of the Government
Securities Section, Division of
Research and Statistics

Chairman Eccles referred to the action taken at the meeting of the Board on Saturday, July 7, 1945, with respect to the elimination of the preferential discount rate now in effect at the Federal Reserve Banks on advances secured by short-term government securities, and stated that, for the purpose of advising the Secretary of the Treasury of the proposed action, a draft of letter had been prepared which, if approved by the Board, would be sent immediately. Chairman Eccles also said that the substance of the letter had been given to Mr. Sproul over the telephone today.

Chairman Eccles read the proposed draft and Mr. Ransom pointed out that it did not ask for any comment by the Secretary. Chairman Eccles responded that, as stated at the meeting of the Board on July 7, 1945, it was not intended to ask for the approval of the Secretary but to inform

7/9/45

-2-

him of the proposed action with the thought that if he did not offer any objection the Federal Reserve Banks and the Board would proceed to discontinue the preferential rate. It was expected, Chairman Eccles added, that if the Secretary did not feel the action should be taken he would so state in a letter addressed to the Board and the record would show that the Board did not take the action because of the Treasury position.

In a further discussion it was stated, as an important element in any action that might be taken to discontinue the preferential discount rate, that it was understood by the members of the executive committee of the Federal Open Market Committee that in the event the preferential rate were eliminated any undue adverse effect on the Treasury certificate market would be offset by System purchases of certificates to the extent that that might be necessary.

At the conclusion of the discussion, upon motion by Mr. Szymczak, the proposed letter to Secretary Morgenthau was approved unanimously in the following form with the understanding that the memorandum covering matters relating to Treasury financing which it was felt should have the consideration of the Secretary, to which Chairman Eccles referred at the meeting of the Board on July 7, 1945, would be sent to Secretary Morgenthau as promptly as possible. It was also understood that a copy of the letter to Secretary Morgenthau would be sent to Under Secretary of the Treasury Bell and by wire to the Presidents of all of the Federal Reserve Banks:

"I am writing to advise you that the Board of Governors and the Federal Reserve Banks are considering the discontinuance at an early date of the preferential discount rate of 1/2 per cent on Government securities maturing or callable in one year or less. The preferential rate was established

7/9/45

-3-

"at all of the Reserve Banks in October 1942. At that time banks were being called upon to take a larger proportion of the debt than now is necessary. The preferential rate was designed to encourage banks to participate in the financing program by borrowing temporarily when necessary and to avoid holding an unreasonably large amount of excess reserves. We felt at the time that the privilege of borrowing at the preferential rate would be used to only a limited extent and that such use as was made of it would be largely by banks that did not hold Treasury bills.

"The principal reason for establishing this rate no longer exists, since the problem now is to retard the growth in bank holdings of Government securities. In fact the elimination of the preferential rate is long overdue. The longer it is maintained the more it tends to become frozen into the system.

"Continuance of the preferential rate would result in further indirect bank financing and in further speculation. Moreover, the preferential rate has become subject to abuse. It affords a substantial profit to banks, which can borrow at 1/2 per cent and thereby can obtain a profit of 1/4 per cent on most issues of certificates and a larger profit on longer-term securities.

"Member bank borrowings in June reached a peak of about 900 million dollars, and practically all of this amount was at the preferential rate. About 600 million dollars of the borrowings were at New York City, where earnings already are large and where speculation is most prevalent. Although to some extent these borrowings were incurred for the purpose of obtaining reserves between drives, there is evidence also that banks borrowed in order to increase their holdings of Government securities and particularly of medium-term bonds. Another purpose of borrowing was to reduce excess profits tax liabilities. It is likely that these abuses of the preferential rate will continue to grow as banks become more and more willing to borrow.

"In addition this low rate, by sustaining a low rate on loans that banks make to dealers and to others, has encouraged speculative buying of Government securities on bank credit. In June loans on Government securities to dealers and brokers reached a peak of 1.8 billion dollars, and such loans to others reached a peak of 2.2 billion, a total of 4 billion.

"Discontinuance of the preferential rate would eliminate the profit that can be made by borrowing and using the funds to purchase certificates and would reduce the profit that can be made by borrowing in order to purchase longer-term securities. This change would serve thereby to retard the growth

7/9/45

-4-

"in bank credit at a time when inflationary tendencies are strong. In addition, it probably would result in an increase in the rate on bank loans to dealers and others, which would discourage such loans and thereby would reduce speculation and indirect bank financing.

"The existence of the preferential rate has had no effect on the cost of Treasury borrowing, which has been influenced rather by Federal Reserve open market operations. Discontinuance of the preferential rate, therefore, would have no influence on the cost of Treasury borrowing.

"The present is the best time to make this change. The large expansion of bank credit in the recent drive indicates that continuance of the preferential rate is undesirable. The Treasury will need to borrow no additional funds for several months. Member bank borrowings are now at a low level, and excess reserves are large. Accordingly the change probably would have little or no effect on the Government security market. Any effect that it might have could be handled easily by open market operations. The Treasury would be assured, therefore, of a ready market for any refunding or any cash offering of certificates that the Treasury may desire, at the present rate of 7/8 per cent."

Chairman Eccles then said that the proposal which Mr. Snyder, Federal Loan Administrator, brought to his attention some time ago and which would involve the transfer to the Reconstruction Finance Corporation of the guaranteeing functions of the War and Navy Departments and the Maritime Commission under the "V" and "T" Loan Program with the Reserve Banks acting as fiscal agents for the Reconstruction Finance Corporation, had been given further consideration and was discussed at the joint meeting of the Board and the Presidents on June 21, 1945. He also said that at his request a memorandum had been prepared setting forth the circumstances surrounding the proposal and the reasons why it was felt that it should not be adopted, and that at a meeting which he had with Mr. Snyder today the memorandum was read and a copy was handed

7/9/45

-5-

to Mr. Snyder. Following the reading of the memorandum, Chairman Eccles said, Mr. Snyder commented that he had no interest in the matter, that all he was trying to do was to decide an issue that had been taken up with him by the War and Navy Departments, that the matter was settled so far as he was concerned, and that all he would do would be to send Mr. Patterson, Under Secretary of War, and Mr. Forrestal, Secretary of the Navy, a copy of the memorandum.

The further statement was made by Chairman Eccles that he had prepared the following letter to Under Secretary of War Patterson, and a similar letter to Secretary of the Navy Forrestal, except that the latter communication did not contain the second and third paragraphs of the letter to Mr. Patterson which were of interest only to the War Department:

"A short time ago Mr. Snyder, Federal Loan Administrator, brought to my attention a proposal, which I understand you and Secretary Forrestal had discussed with him, involving the transfer to the RFC of the guaranteeing functions of the War and Navy Departments and Maritime Commission under the 'V' and 'T' loan program, with the Federal Reserve Banks acting as the field agents for the RFC.

"I had not previously heard of this proposal, but we were later furnished with a copy of a memorandum prepared by Colonel Paul Cleveland, Chief of the Advance Payment and Loan Branch of the Special Financial Services Division of the War Department, under date of June 13, 1945, from which it appears that Colonel Cleveland had been actively considering this matter since February and had discussed it on numerous occasions with representatives of other agencies including the RFC and the Navy Department.

"Colonel Cleveland's memorandum contains a number of statements with respect to the Federal Reserve System which are inappropriate and uncomplimentary. I think that these statements and his activities in making the proposal, without revealing it to the Federal Reserve System, were most unfortunate because such actions cause unnecessary

7/9/45

-6-

"friction and misunderstanding.

"After looking into this matter I have discussed it with the members of the Board of Governors and also with the Presidents of the twelve Federal Reserve Banks. They unanimously feel that the adoption of the proposal is unnecessary and would be inadvisable.

"If, when the 'V' and 'T' loan programs reach the stage of liquidation, a change is felt to be desirable, the programs could be transferred to the Federal Reserve System. There would be more reason for transferring the liquidation phase of the programs to the Reserve System than to the RFC, since the Federal Reserve Banks are entirely familiar with the loans and are now servicing them.

"If, however, it should be decided to carry out the present proposal to transfer the guaranteeing functions to the RFC, the members of the Board and the Presidents of the Reserve Banks all feel that the entire program should be turned over to the RFC and the Federal Reserve Banks and the Board relieved of all responsibility in the matter. To have two different organizations handling the program in the field and two different boards handling it in Washington would obviously involve much duplication and would be most confusing and impractical.

"I discussed this matter again with Mr. Snyder this morning, and I enclose herewith for your information a copy of a memorandum which I gave to him on the subject that states the position of the Federal Reserve System in the matter. Mr. Frank E. McKinney, Assistant Director of Contract Settlement, sent to me on July 2nd a copy of a memorandum which he had addressed to Colonel Paul Cleveland of the War Department with regard to this matter and I also enclose herewith a copy of that memorandum."

The letter to Mr. Patterson was read after which, upon motion by Mr. McKee, the two letters were approved unanimously.

Under date of June 25, 1945, a letter was received from Mr. Sproul, President of the Federal Reserve Bank of New York, in which it was stated that, if the Board of Governors had no objection, it was proposed to engage Professor Lawrence Seltzer of Wayne University, on a temporary basis for the summer, to make a study of the problems involved in the handling of the public debt after the war with particular

7/9/45

-7-

reference to questions of banking and credit which formed a part of this general subject. The letter stated that in view of the difficulty in finding living accommodations in the New York area it seemed that the best arrangement this year would be to have Professor Seltzer lay out the work in consultation with officers of the Bank and then conduct his studies at his home in Michigan, making occasional trips to New York to discuss the progress of the study, and that it was proposed to pay him at the rate of \$1,000 a month and to reimburse him for the cost of stenographic help and traveling expenses for occasional trips to New York.

The proposed arrangement had been the subject of several informal discussions by members of the Board and a memorandum was addressed to the Board by Mr. Thomas under date of July 6, 1945, commenting on the questions that had been raised in such discussions. The memorandum reached the conclusions that (1) objection by the Board to work of this sort being undertaken by a Reserve Bank would mean the establishment of a new principle that is inconsistent with past and existing practices or policies, (2) the Board might object, however, on the grounds that the particular arrangement proposed would probably not yield results justifying the expense involved, and (3) that if the Board were not favorable to the proposal Chairman Eccles might discuss it with President Sproul while he was in Washington.

At this meeting Chairman Eccles stated that Mr. Sproul had spoken to him about the matter and that he had taken the position that such a study would duplicate studies being made by the Treasury and other Government agencies, that if it were made in the System the Board should

7/9/45

-8-

determine whether it would make the study, and the Federal Reserve Bank should not undertake such studies independently. He also said that inasmuch as it appeared that the Federal Reserve Bank had already made a commitment to Mr. Seltzer the Board might approve reimbursement for the time he had already spent on the study.

The matter was discussed and it was agreed that the extent of the commitment of the New York Bank to Mr. Seltzer should be ascertained and that the matter should be considered again.

In connection with the above matter Chairman Eccles expressed the opinion that it was a mistake for the Federal Reserve Banks to undertake studies of this kind independently and that a letter should be addressed to each of the Banks which would make it perfectly clear that the studies on national problems would be made by the Federal Reserve System, or that the Board would take the initiative with respect to such studies and that they should be undertaken by the Federal Reserve Banks only after consultation by the Board with the Federal Reserve Banks and with the approval of the Board.

Mr. McKee referred to the amendment to Regulation D, Reserves of Member Banks, which was adopted by the Board on June 27, 1945, and which requires country banks operating branches in reserve or central reserve cities to maintain the same reserves as banks located in such cities, and to the discussion at that time of the effect of the amendment on the First Camden National Bank & Trust Company, Camden, New Jersey, which operates a branch in the wharf area of Philadelphia. In

7/9/45

-9-

this connection, he presented a memorandum addressed to the Board by Mr. Smead, Director of the Division of Bank Operations, on July 9, 1945, in which it was stated that since the adoption of the amendment the Federal Reserve Bank of Philadelphia had looked into the possibility of the Board granting permission under the terms of the amendment to the national bank to maintain the reserves applicable to "country" member banks, and that the Reserve Bank had come to the conclusion, for the reasons outlined in an informal memorandum, that the national bank should have such permission.

Mr. McKee stated that, at his suggestion, Mr. Horbett, Assistant Director of the Division of Bank Operations, went to Philadelphia to look into the matter personally and that he was satisfied that, if the national bank were granted authority to carry reduced reserves, such action would be in harmony with the actions taken by the Board in the past granting similar authority to outlying banks in reserve cities.

Mr. Smead's memorandum stated that the Board's counsel had advised that in his opinion action by the Board granting to the national bank authority to carry reduced reserves was within the precedents established in other cases and consistent with the purposes of the law, but that it should be recognized that it would be giving quite a liberal interpretation to the language of the law regarding outlying districts. In the circumstances, the memorandum recommended that the Federal Reserve Bank of Philadelphia be advised informally that the Board would grant permission to the First Camden National Bank & Trust Company,

7/9/45

-10-

Camden, New Jersey, to maintain the reserves required of banks located outside central reserve and reserve cities effective August 1, 1945, if the Federal Reserve Bank of Philadelphia submitted a formal recommendation to that effect.

In connection with the above matter, Mr. McKee called attention to a second memorandum from Mr. Smead dated July 9, 1945, in which it was stated that advice had been received from the Federal Reserve Bank of Cleveland that an application had been received from the Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio, which maintains a branch in Hyde Park, a community included within the corporate limits of Cincinnati, Ohio, for permission to carry reserves required of "country" banks, and that in view of the circumstances outlined in the memorandum it was recommended, subject to receipt of a favorable recommendation from the Cleveland Bank that the Board authorize the Norwood-Hyde Park Bank and Trust Company to continue to carry the reserves required of "country" banks.

Upon motion by Mr. McKee, it was voted to grant the First Camden National Bank & Trust Company and the Norwood-Hyde Park Bank and Trust Company authority to carry reduced reserves, and the following letters to the Federal Reserve Banks of Philadelphia and Cleveland were approved unanimously, with the understanding that they would be sent by the Secretary upon receipt from the respective Banks of the favorable recommendations referred to above:

7/9/45

-11-

Letter to Federal Reserve Bank of Philadelphia:

"The Board of Governors of the Federal Reserve System has considered the request of the First Camden National Bank and Trust Company, Camden, New Jersey, together with the comments and recommendation of your Bank, and, pursuant to the provisions of Section 19 of the Federal Reserve Act and section 2(a) of Regulation D, as amended effective August 1, 1945, grants permission to the First Camden National Bank and Trust Company to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective August 1, 1945.

"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 in the event of a change in the character of business of its Philadelphia branch or of the locality served by the branch or for any other reason."

Letter to Federal Reserve Bank of Cleveland:

"The Board of Governors of the Federal Reserve System has considered the request of The Norwood-Hyde Park Bank & Trust Company, Norwood, Ohio, together with the comments and recommendation of your Bank, and, pursuant to the provisions of Section 19 of the Federal Reserve Act and section 2(a) of Regulation D, as amended effective August 1, 1945, grants permission to The Norwood-Hyde Park Bank & Trust Company to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective August 1, 1945.

"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."

7/9/45

-12-

Mr. McKee then presented a memorandum dated June 30, 1945, from the Division of Examinations, in which it was stated that, since the adoption in 1937 of Section 17 of Regulation F relating to common trust funds, several problems had developed and requests had been received for changes in the Regulation, that these suggestions have been discussed with representatives of the American Bankers Association and other interested bankers from time to time, and that, for the reasons set forth in the memorandum, it was the recommendation of the Division that the Regulation be amended to provide (1) that the amount which may be invested by any one trust in a common trust fund be increased from \$25,000 to \$50,000, (2) that the maximum additional amount which may be invested in a common trust fund by or for any one trust shall be the difference between the maximum limit and the amount previously invested, (3) a reasonable time, not to exceed one week, in which to effect appraisals, obtain prices and make computations following each valuation date, and, (4) for a restriction on advertising of a common trust fund, including a prohibition against advertising or publicizing earnings or estimated values of participation, except as may be necessary to comply with State laws applicable to trust accounts.

The memorandum also recommended that the matter of distribution of accrued and uncollected income be covered by a ruling of the Board in the form of a letter to the Presidents of all of the

7/9/45

-13-

Federal Reserve Banks to the effect that such distributions, for temporary periods, are not inconsistent with Regulation F.

Attention was called to the fact that these proposals had been discussed previously by the Board, particularly the suggestion that the maximum amount of any one trust that might be invested in a common trust fund be increased to \$50,000, and that at the meeting of the Board on May 18, 1945, the members of the Board indicated that they would favor such an amendment.

Mr. McKee then submitted the following draft of letter to the Presidents of the Federal Reserve Banks:

"In 1937 the Board amended its Regulation F by the addition of section 17, providing for the establishment of Common Trust Funds, and since that time has carefully observed the operation of such Funds by member banks. The Committee on Common Trust Funds of the Trust Division of the American Bankers Association recommended in 1944 that the Board amend its regulation so as to increase the amount of the funds of any one trust which may be invested in a Common Trust Fund. After careful consideration of this recommendation and consultation with representatives of the American Bankers Association and with officers of certain banks operating such Funds, the Board has amended its regulation so as to increase this limitation on investments in Common Trust Funds from \$25,000 to \$50,000.

"At the same time the Board adopted other amendment to the Common Trust Fund provisions of the regulation to provide restrictions on a bank's advertising as to such Funds and to make certain other minor changes, principally of a clarifying nature. Corresponding changes were made also in the provisions relating to mortgage investment funds. All of these amendments will become effective September 1, 1945.

"There are transmitted herewith copies of the various paragraphs of section 17 of Regulation F as

7/9/45

-14-

"thus amended and it will be appreciated if you will have the necessary copies of these amendments printed for such distribution to member banks in your District as you consider advisable."

The amendment referred to in the letter was as follows:

"TRUST POWERS OF NATIONAL BANKS

AMENDMENT TO REGULATION F

"ISSUED BY THE
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

"Effective September 1, 1945, section 17 of Regulation F relating to Common Trust Funds is amended in the following respects:

"The third paragraph of subsection (a) is amended to read as follows:

"The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Internal Revenue Code,¹⁷ for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited. No bank administering a Common Trust Fund shall issue any document evidencing a direct or indirect interest in such Common Trust Fund in any form which purports to be negotiable or assignable. The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to believe that such trust was not created or is not being used for bona fide fiduciary purposes. A bank administering a Common Trust Fund shall not, in soliciting business or otherwise, publish or make representations which are inconsistent with this paragraph or the other provisions of this regulation and, subject to the applicable requirements of the laws of any State, shall not advertise or publicize the earnings realized on any Common Trust Fund or the value of the assets thereof.

"The second paragraph of subsection (c) (3) is amended to read as follows:

"The bank shall, without charge, send a copy of the latest report of such audit annually to each person to

17

For applicable provisions of the Internal Revenue Code, see Appendix.

7/9/45

-15-

"whom a regular periodic accounting of the trusts participating in the Common Trust Fund ordinarily would be rendered or shall send advice to each such person annually that the report is available and that a copy will be furnished without charge upon request. Except as may be required by the applicable laws of any State, the bank shall not publish or authorize the publication of any such report or the information contained therein and each copy furnished to any person as herein provided must bear a statement to the effect that the publication of such copy or the information contained therein is unauthorized.

"Subsection (c) (4) is amended to read as follows:

"(4) Value of assets to be determined periodically.-

Not less frequently than once during each period of three months the trust investment committee of a bank administering a Common Trust Fund shall determine the value of the assets in the Common Trust Fund as of the dates which the Plan provides for the valuation of assets. No participation shall be admitted to or withdrawn from the Common Trust Fund except (1) on the basis of such valuation and (2) as of such a valuation date. A reasonable period, not to exceed 7 days, following each valuation date may be used to make the computations necessary to determine the value of the Fund and of the participations therein. No participation shall be admitted to or withdrawn from the Common Trust Fund unless a written request for or notice of intention of taking such action shall have been entered in the records of the bank and approved by the trust investment committee, on or before the valuation date. No such request or notice may be canceled or countermanded after the valuation date.

"The first paragraph of subsection (c) (5) is amended to read as follows:

"(5) Miscellaneous limitations.- No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having invested in the aggregate in the Common Trust Fund an amount in excess of 10 per cent of the value of the assets of the Common Trust Fund at the time of investment, as determined by the trust investment committee, or the sum of \$50,000, whichever is less. If the bank administers more than one Common Trust Fund under this subsection, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Common Trust Funds an amount in excess of the sum of \$50,000; and, if the bank administers Funds under both subsections (c)

7/9/45

-16-

"and (d) of this section, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Funds an amount in excess of the sum of \$50,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.

"The first paragraph of subsection (d) (4) is amended to read as follows:

"(4) Value of assets to be determined periodically.- Not less frequently than once during each period of three months the trust investment committee of a bank administering a Mortgage Investment Fund shall determine the value of the assets in the Mortgage Investment Fund as of the dates which the Plan provides for the valuation of assets. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund except as of such a valuation date. A reasonable period, not to exceed 7 days, following each valuation date may be used to make the computations necessary to determine the value of the Fund and of the participations therein. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund unless, on the basis of such valuation, the value of the assets of the Mortgage Investment Fund, exclusive of accrued income, is at least equal to the amount of the outstanding participations. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund unless a written request for or notice of intention of taking such action shall have been entered in the records of the bank and approved by the trust investment committee, on or before the valuation date. No such request or notice may be canceled or countermanded after the valuation date.

"The first paragraph of subsection (d) (5) is amended to read as follows:

"(5) Miscellaneous limitations.- No funds of any trust shall be invested in a participation in a Mortgage Investment Fund if such investment would result in such trust having invested in the aggregate in the Mortgage Investment Fund an amount in excess of the sum of \$1,200 or 2 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, whichever is greater at the time of investment, or in any event in

7/9/45

-17-

"excess of the sum of \$10,000. If the bank administers more than one Mortgage Investment Fund, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Mortgage Investment Funds an amount in excess of the sum of \$10,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Funds an amount in excess of the sum of \$50,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one."

Upon motion by Mr. McKee, the letter and the amendment were approved by unanimous vote in the form set forth above, together with the following letter to the Presidents of the Federal Reserve Banks, it being understood that copies of the amendment would be sent to the Comptroller of the Currency and the Bureau of Internal Revenue:

"The question has been presented as to whether a bank operating a Common Trust Fund under Section 17(c) of Regulation F may use uninvested cash in the fund to distribute accrued interest and declared dividends receivable on investments of the fund prior to receipt.

"The use of uninvested cash in the fund for this purpose is not inconsistent with the provisions of Regulation F and the Board will not object if the uninvested cash is so used in reasonable amounts."

At this point Messrs. Smead, Vest, Horbett, and Piser withdrew from the meeting.

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

7/9/45

-18-

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

Memorandum dated July 5, 1945, from Mr. Carpenter, recommending, with the concurrence of Mr. Bethea, Director of the Division of Administrative Services, that Mrs. Mary E. Sanders, a stenographer in that Division, be transferred to the Secretary's Office, on a permanent basis without change in salary, effective immediately.

Approved unanimously.

Letter to "Bank of Dublin, Incorporated," Dublin, Virginia, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in 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."

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of June 29, 1945, asking for the Board's approval for the payment of fees in the amount of \$2,000 for special services rendered by your counsel, Squire, Sanders and Dempsey, in addition to the fixed retainer, for the first six months of 1945. It is noted that the executive committee of your board of directors has approved the payment of this bill; and you are advised that the Board of Governors likewise approves such payment.

7/9/45

-19-

"It will be helpful to the Board in its consideration of such matters if in the future when your bank submits bills for special services of your counsel it will supplement them with somewhat more detailed information, by itemization or otherwise as may be convenient, as to the nature of the work done and the time of counsel required."

Approved unanimously.

Letter to Mr. C. W. Warburton, Deputy Governor, Farm Credit Administration, United States Department of Agriculture, reading as follows:

"This will acknowledge your letter of June 25, 1945, relative to the recent change in the Board's Regulation W which, among other things, eliminated the exemption for credit secured by first liens on approved real estate. You make a suggestion with reference to a change in section 8(i) having to do with agricultural loans.

"We should like to study appropriate means of dealing with this problem and shall keep your staff advised of our progress."

Approved unanimously.

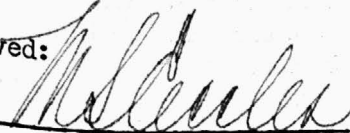
Telegram dated July 9, 1945, prepared for the signature of Chairman Eccles, to C. D. Deshmukh, Reserve Bank of India, reading as follows:

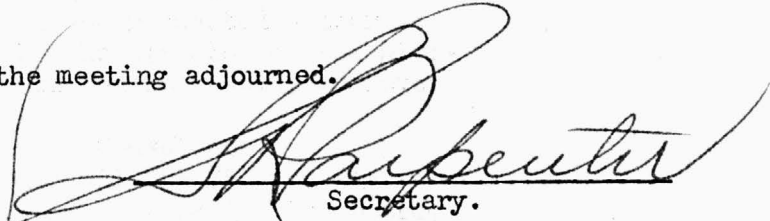
"We shall welcome the officer you send to study bank examinations and shall be glad to draw up plan of study, etc. and assist in necessary arrangements as you request. We suggest three to six months as practicable but longer if desired, beginning October or November."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.