

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

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

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Thurston, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 9, 1945, were approved unanimously.

Memorandum dated July 6, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, reading as follows:

"At a Board meeting on March 13, the Chairman was authorized to make arrangements with Professor Hansen (a) to discontinue the then-existing procedure for his services on a regular basis, and (b) to have him available on a per diem basis for consultation with members of the Board or its staff on questions that may arise from time to time.

"Subsequently the Board approved a proposal for bringing the existing arrangement to a close on June 15, as set forth in a memorandum of March 23 from me to the Chairman.

"It is now recommended that formal approval be given to the following provisions for Professor Hansen's future work:

- (1) His services may be requested either by the Board or by the Director of the Division of Research and Statistics whenever needed.
- (2) His title will be Consultant.
- (3) His compensation will be \$50 per day for each calendar day of work for the Board, either in Washington or elsewhere.

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- "(4) In addition he will be paid traveling expenses in accordance with those granted by the Board's travel regulations to Directors and Assistant Directors of Divisions.
- (5) The new basis becomes effective upon approval by the Board.

"The principal changes from the previous arrangement are (a) use of Professor Hansen's services would not be on a regular schedule and would be infrequent; (b) change in title from Special Economic Adviser to Consultant; (c) provision for payment of a per diem allowance in lieu of subsistence expenses, in addition to compensation at the rate of \$50 per day; heretofore the \$50 has covered both subsistence and compensation. The separation of the two is more consistent with existing practice, and the additional compensation involved seems reasonable in view of the reduced frequency of employment.

"It is contemplated that compensation and travel allowances under this recommendation will continue to be charged to the Division of Research and Statistics. Provision for expenditures connected with Professor Hansen's services was made in the Division's budget for 1945.

"It is also recommended that Professor Hansen be compensated, on the former basis, for services performed on June 16, as well as for usual expenses connected with his trip to Cambridge, Massachusetts from Washington, D. C. on the night of June 16. In bringing his work to a close Professor Hansen found it necessary to continue through June 16, whereas the arrangement approved by the Board expired June 15."

Approved unanimously.

Memorandum dated July 4, 1945, from Mr. Carpenter recommending that Miss Mary Magdalene Gallimore be appointed as a file clerk in the Secretary's Office on a temporary basis for a period not to exceed six months, with basic salary at the rate of \$1,836 per annum, plus supplemental compensation for overtime of \$275.40 on the basis of a 44-hour workweek, effective as of the date upon which she enters upon

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the performance of her duties after having passed the usual physical examination and subject to a check of her references, with the understanding that if her services are satisfactory a subsequent recommendation will be submitted for her permanent appointment. The memorandum stated that it is contemplated that Miss Gallimore will become a member of the Board's retirement system.

Approved unanimously.

Memorandum dated July 9, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Cora Donogan be appointed as a charwoman in that Division on a temporary basis, not to exceed 60 days, with basic salary at the rate of \$1,440 per annum, plus supplemental compensation for overtime of \$216 on the basis of a 44-hour workweek, and in addition to the salary specified a 10 per cent night differential for work performed after 6 p.m. The appointment is to become effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination, with the understanding that, if her work is satisfactory, a further recommendation will be submitted to continue her services. The memorandum stated that it is not contemplated that Mrs. Donogan will become a member of the Board's retirement system during her probationary period of appointment.

Approved unanimously.

Memorandum dated July 10, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Ellen

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Watson be appointed as a cafeteria helper in that Division on a temporary basis for a period not to exceed two months, with basic salary at the rate of \$1,440 per annum on the basis of a 40-hour workweek, effective July 10, 1945. The memorandum stated that Mrs. Watson will not become a member of the Board's retirement system.

Approved unanimously.

Letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves, effective July 1, 1945, the changes in the personnel classification plan of the Federal Reserve Bank of Richmond and the Baltimore Branch, as submitted with your four letters of July 2, 1945."

Approved unanimously, together with letters to The Commissioner of Internal Revenue, Salary Stabilization Unit, and the Wage Stabilization Division, National War Labor Board transmitting copies of certificates with respect to salary increases at the Federal Reserve Bank and its Baltimore Branch.

Letter to the board of directors of the "Midland Bank," Midland, Pennsylvania, 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 Cleveland. 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 business, such as

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"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. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Midland Bank,' Midland, 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 it is understood that provision for the losses classified in the report of examination for membership is to be made prior to admission of the bank to membership, the usual condition of membership requiring elimination of losses has not been prescribed.

"A letter to the Beaver Trust Company, Beaver, Pennsylvania, relating to its status as a holding company affiliate upon the admission of the Midland Bank, Midland, Pennsylvania, to membership is enclosed and is to be transmitted to the trust company. Two copies of the letter are also enclosed, one of which is for your files and the other is for transmittal to the Midland Bank."

Unanimous approval was also given to the following letter to Beaver Trust Company, Beaver, Pennsylvania:

"This refers to the Board's approval on this date

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"of the application of the Midland Bank, Midland, Pennsylvania, for stock in the Federal Reserve Bank of Cleveland, subject to certain conditions, and to the status of the Beaver Trust Company, Beaver, Pennsylvania, as a holding company affiliate upon the admission of the Midland Bank to membership in the Federal Reserve System.

"The Board understands that the Beaver Trust Company owns 994 of the 1,250 shares of outstanding stock of the Midland Bank but does not own or control any stock of, or manage or control, any other banking institution.

"On this basis, upon the Midland Bank's becoming a member of the Federal Reserve System, the Beaver Trust Company will become a holding company affiliate within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

'(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank * * *.'

"However, in view of the facts above recited, the Board has determined that the Beaver Trust Company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) * * * any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"As a result of such determination, the Beaver Trust Company will not be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. However, the Board reserves the right to make a further determination at any time on the basis of the then existing facts and, if there should be such a change in the

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"facts as to indicate that the Beaver Trust Company might be deemed to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, this matter should again be submitted to the Board."

Letter to the board of directors of "The Bank of Sharon," Sharon, Tennessee, 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 St. Louis. The letter also contained the following special comment:

"It has been noted that the bank is authorized to exercise fiduciary powers but has accepted only one account, the small account now being administered, and that the management does not intend to handle any additional business and intends to terminate present fiduciary responsibilities as soon as possible. In the circumstances, therefore, the application has been approved on the same basis as if fiduciary powers were not being exercised. It has been noted also that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the powers to guarantee the payment of bonds and mortgages, and to guarantee titles to real estate. Attention is called to the fact that if the bank should decide in the future to exercise fiduciary powers, other than to the limited extent necessary in administering the one account now on its books until the proposed liquidation of the trust department can be completed, or 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 doing so. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the bank since the date of its application for membership."

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

Letter to the board of directors of the "Peoples Bank & Loan Company", Lewisville, Arkansas, 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 St. Louis.

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

Letter to Senator J. W. Bailey reading as follows:

"This is in reply to your letter of June 28, 1945, enclosing a letter from Mr. Pembroke Nash, Tarboro, North Carolina, relative to an amendment of the Board's Regulation W effective June 11, 1945, which among other things eliminated a provision excepting loans secured by first liens on improved real estate.

"Regulation W, as you know, has been part of the Government's anti-inflation campaign ever since 1941 and it has contained provisions with respect to credit for repairs and improvements to homes from the beginning. In view of the very serious shortage of building materials and labor, one of the purposes of the regulation was to cause people to think twice about going ahead with this kind of work, to suggest that it be postponed as long as possible, and to urge that it be confined to the smallest scope possible.

"The amendment, which was made up of a number of items, was not intended as a whole either to relax or tighten up the regulation in this field. Its purpose was to simplify the terms and make it more uniform so that some work would not be subject to severe terms while other work of the same kind was treated very liberally.

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"The part of the amendment which eliminates the first lien exemption and which is of special interest to savings and loan associations does no more than to put the consumer-credit transactions of these institutions on more nearly the same basis as those of other institutions operating in the consumer-credit industry.

"As a matter of fact, the amendment does not go very far in putting the savings and loan associations on the same basis, largely for the reason that when a lending institution already has a secured loan outstanding there are certain circumstances in which an additional advance can be made to the borrower without bringing the transaction under the regulation. Also, there is nothing to prevent the lender from postponing payments on a loan originally made to purchase a home, if the payments on that loan plus the payments for the repairs or improvements — on an 18 months' basis — are more than the borrower feels he can meet.

"The trade associations operating in the savings and loan field and the Federal Home Loan Bank System have issued circulars to their members explaining what can be done under the amendment and these should help to clear up the misunderstandings that developed at the time the amendment was adopted. One of these may by this time have come to Mr. Nash's attention. If, however, he has any further questions, he may wish to communicate with the Federal Reserve Bank of Richmond, which has responsibility for the administration of Regulation W in Mr. Nash's district and which will be very glad to discuss this matter with him.

"We are returning Mr. Nash's letter."

Approved unanimously.

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

"Your letter of June 25 regarding the 'Law Against Discrimination', which became effective July 1, 1945 in New York, has been brought to the attention of the Board.

"It is noted that irrespective of the question as to whether such State legislation is inapplicable to the Reserve Bank as an instrumentality of the Federal Government you intend, as a matter of policy, to try to conform

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"with the spirit and the letter of the law."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks

reading as follows:

"Reference May 24, 1945, report of Committee on Destruction of Records which was approved at Presidents' Conference June 18 - 19. Board approves recommendation that reports of examination of national banks and their affiliates made by Comptroller of Currency be retained five years and authorizes their destruction after they have been held for that period with following exception: In view of the provision of Section 5144, United States Revised Statutes, and paragraph 7 of the Application for Voting Permit regarding the payment of dividends only out of actual net earnings, it is requested that examination and other reports of all banks and other companies which, subsequent to June 16, 1933, have been in presently existing bank holding company groups, be retained until your Bank is satisfied that necessary data have been compiled and dividend and actual net earnings status of each bank holding company in your district has been determined; and until satisfactory disposition has been made of any other unsettled matters. You will be advised later of Board's action with respect to remaining records of Bank Examination Department and other records referred to in Committee Report requiring Board's approval before destruction."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks read-

ing as follows:

"You undoubtedly have seen the recent references in the press to the statement sent by President Truman under date of July 4, 1945, to the executive departments and agencies of the Government requesting that steps be taken to prevent misuse or careless handling of Government funds.

"With the thought that you may wish to bring the statement to the attention of the officers of your Bank

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"for their information, a copy is enclosed herewith."

Approved unanimously.

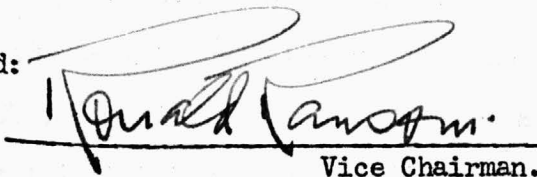
Memorandum dated July 7, 1945, from Mr. Paulger, Director of the Division of Examinations, submitting an expense voucher amounting to \$262.80 covering the expenses incurred by three employees of the Federal Reserve Bank of St. Louis, who assisted in the current examination of the Federal Reserve Bank of Cleveland, because one individual claims reimbursement for \$.70 for taxi tips, which, under the Board's travel regulations, are not allowable, and recommending that payment of the voucher be made in this instance.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.