

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 13, 1945, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman

Mr. McKee

Mr. Evans

Mr. Carpenter, Secretary

Mr. Hammond, Assistant 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. Smead, Director of the Division of  
Bank Operations

Mr. Vest, General Attorney

Mr. Wyatt, General Counsel

Reference was made to a letter from Mr. Davis, President of the Federal Reserve Bank of St. Louis, dated June 16, 1945, requesting, for the reasons stated therein, approval by the Board of an additional expenditure by the Bank of \$64,000 for the construction of a three-level garage, instead of the two-level garage originally planned as part of the building program proposed by the Bank, the expenditure for which was approved by the Board on February 12, 1945. The request was submitted to the Board with a memorandum from Mr. Szymczak recommending approval of the additional expenditure. Before he left the city he requested that it be stated at this meeting that he would recommend approval and that he had asked that the matter be discussed by the Board so that the members might have a complete picture of the Bank's building program. The file had been circulated for consideration at a meeting in accordance with Mr. Szymczak's request.

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Mr. Ransom questioned the advisability of the additional expenditure at this time and, since the matter of decision was not an urgent one, it was agreed that it should be deferred until a meeting of the Board at which Mr. Szymczak was in attendance.

Mr. Ransom stated that Mr. Gardner, Chief of the International Section in the Division of Research and Statistics, had raised with him the question of prompt action by the Board on a request received through the Inter-American Development Commission for the services of Mr. Triffin in connection with the formulation of new monetary and banking legislation in Guatemala.

Mr. Hammond outlined briefly the status of the request, after which, upon motion by Mr. McKee, it was voted unanimously to take no action on the matter at this time but to refer it to Mr. Szymczak with power to act upon his return to the office on Monday, July 16.

Mr. Ransom stated that on Wednesday, July 11, 1945, there were brought to his attention drafts of letters to the Chairmen of the Banking and Currency Committees of Congress, which Mr. Szymczak had initialed before he left Washington, suggesting, in connection with the bills now before the Committees to increase the lending authority of the Export-Import Bank of Washington, that because of the close relationship that would exist between the Bank and the National Advisory Council on International Monetary and Financial Problems provided for in the Bretton Woods Agreements, the Board of Trustees of the Bank should be the

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same officials as those who would comprise the National Advisory Council. Later in the afternoon of that day, he said, it was learned that Mr. Crowley, Foreign Economic Administrator, had testified before the House Committee which was holding hearings on the Export-Import Bank Bill and had suggested that the Board of Trustees of the Bank consist of the Secretary of State and the Foreign Economic Administrator, as ex officio members, and three others to be appointed by the President with the advice and consent of the Senate, and that the National Advisory Council on International Monetary and Financial Problems should serve in an advisory capacity to the Board of Trustees. Mr. Ransom made the further comment that it was understood that the Bill was to be voted on by the House Committee yesterday, that in order to get the suggestion contained in the proposed letters before the Committee as promptly as possible he revised the letters in the light of Mr. Crowley's testimony to read as follows, and that yesterday morning he delivered the letter to Mr. Spence personally and was advised by him that if the suggestion had been received earlier the Committee would have been glad to give it consideration, that he would put it into the record of the hearing, that he doubted, however, that it would be considered by the Committee since it had pretty well made up its mind and the Bill was to be reported out for consideration on the floor of the House today, but that if we wished to press for our suggestion it might be taken up with the Senate Committee:

"I would like to refer to the bills now pending before your Committee to provide for increasing the lending authority of the Export-Import Bank of Washington.

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"The activities of the Export-Import Bank of Washington are closely related to the responsibilities which would be placed upon the National Advisory Council on International Monetary and Financial Problems by the pending Bretton Woods legislation. In our opinion, it is most important that the financial and monetary policies of the United States which govern our participation in the International Bank and International Fund should also govern all the operations of the Export-Import Bank. In order to accomplish this objective, it seems eminently desirable that the members of the board of trustees of the Export-Import Bank should be the same officials as those who comprise the National Advisory Council. We do not believe that the same result would be produced by providing that these officials shall act merely in an advisory capacity to the board of trustees.

"Accordingly, the Board wishes to recommend that any legislation with respect to the Export-Import Bank which may be endorsed by your Committee include a provision that the members of the board of trustees of the Export-Import Bank shall be the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and a fifth member to be appointed by the President with the advice and consent of the Senate who would be the Chairman of the board of trustees of the Bank. The Board earnestly hopes that your Committee will give this proposal favorable consideration."

Mr. Ransom stated that a letter similar to the one set forth above was sent to Senator Wagner, with copies to Messrs. Byrnes, Secretary of State; Morgenthau, Secretary of the Treasury; Wallace, Secretary of Commerce; Crowley, Foreign Economic Administrator; and Taylor, President of the Export-Import Bank of Washington. He went on to say that in view of the shortness of time and the information received from Congressman Spence, there seemed to be nothing more to be done on the matter at the moment and that in a telephone conversation later in the day with Mr. Szymczak he concurred and stated that upon his return to Washington he would consider what action might be taken on the matter in connection with its consideration by the Senate Committee.

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In the discussion which followed Mr. McKee questioned the advisability of an arrangement under which the Board of Trustees of the Export-Import Bank would be composed wholly of men who had other full-time jobs and, therefore, might not give the attention to their responsibilities as Trustees of the Export-Import Bank as that position might require.

Mr. Ransom stated that there would be an opportunity to consider the matter further when it was before the Senate Committee and if the Board at that time should desire to take a view contrary to that stated in the above letter that could be done.

Telegrams to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Clouse, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, 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. Mehornay, Deputy Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, 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 Bank of San Francisco, on July 10, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas, on July 12, 1945, of the rates of discount and purchase in their existing schedules.

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Messrs. Thomas, Smead, Vest, Wyatt then withdrew from the meeting.

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

Memorandum dated July 11, 1945, from Mr. Leonard, Director of the Division of Personnel Administration, recommending (1) that the compensation of Mrs. Catherine E. O'Connell, Substitute Nurse, be increased from \$6.00 to \$8.00 per day, with the understanding that the payment for Sundays and holidays intervening during a tour of duty would be discontinued, and (2) that the compensation of Amy French, Substitute Maid, be increased from \$4.00 to \$5.55 per day.

Approved unanimously.

Memorandum dated July 12, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Doreen M. Dippre be appointed as a clerk-stenographer in that Division on a temporary basis for an indefinite period, 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 the performance of her duties after having passed the usual physical examination. The memorandum stated that Miss Dippre would become a member of the Board's retirement system.

Approved unanimously.

Letter to the board of directors of the "Bank of Beaumont," Beaumont, California, stating that, subject to conditions of membership



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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 San Francisco.

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

Letter to The National City Bank of New York, New York, New York, reading as follows:

"This refers to the letter of July 6, 1945, from Vice President C. V. Sheehan of your bank requesting an extension of the time within which you may establish branches at Dhahran and Ras Tanura, Kingdom of Saudi-Arabia. The Board of Governors of the Federal Reserve System granted its permission on July 29, 1944, for the establishment of such branches with a proviso that they be established and opened for business on or before July 15, 1945.

"The Board of Governors of the Federal Reserve System extends to July 15, 1946, the time within which The National City Bank of New York may establish and open for business branches at Dhahran and Ras Tanura, Kingdom of Saudi-Arabia, in accordance with the provisions of its Order of July 29, 1944."

Approved unanimously.

Letter to The National City Bank of New York, New York, New York, reading as follows:

"This refers to the letter of July 5, 1945, from Vice President W. J. Hoffman of your bank requesting an extension of the time within which you may establish a branch at Porto Alegre, Brazil. The Board of Governors of the Federal Reserve System granted its permission on February 17, 1944, for the establishment of such a branch with a proviso that it be established and opened for business on or before February 15, 1945 and by its letter of February 1, 1945 extended such time to August 15, 1945.

"The Board of Governors of the Federal Reserve System extends to August 15, 1946, the time within which The National City Bank of New York may establish and open for

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"business a branch at Porto Alegre, Brazil, in accordance with the provisions of its order of February 17, 1944."

Approved unanimously.

Letter to the International Banking Corporation, New York, New York, reading as follows:

"This refers to the letter of July 5, 1945 from Vice President N. C. Lenfestey of your institution requesting an extension of the time within which you may establish a branch at Paris, France. The Board of Governors of the Federal Reserve System granted its permission on September 7, 1944, for the establishment of such a branch with a proviso that it be established and opened for business on or before February 1, 1945, and by its letter of February 1, 1945, extended such time to August 1, 1945.

"The Board of Governors of the Federal Reserve System extends to August 1, 1946, the time within which International Banking Corporation may establish and open for business a branch at Paris, France, in accordance with the provisions of its order of September 7, 1944."

Approved unanimously.

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

"This refers to Mr. Diercks' letter of June 29, 1945, with regard to the application of the Beloit Savings Bank, Beloit, Wisconsin, for permission to exercise additional fiduciary powers.

"In accordance with Mr. Diercks' recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under its charter and the laws of the State of Wisconsin.

"You are requested to advise the Beloit Savings Bank, Beloit, Wisconsin, of the Board's action."

Approved unanimously.

Letter to "The First National Bank of Falls City," Falls City, Nebraska, reading as follows:



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"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as executor, administrator, and guardian of estates, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to Mr. Coffey, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Minneapolis, made as of May 24, 1945, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also furnished President Peyton.

"The Board will appreciate advice that the report has been considered by the board of directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

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

"This refers to your letter of June 29, 1945, enclosing a copy of a letter received by you from Mr. W. S. Irby, President, The Bank of Lunenburg, Kenbridge, Virginia, with respect to that bank's practice of absorbing exchange charges for all of its customers regardless of the size of their balances and also with respect to its practice of furnishing checkbooks to its depositors. You enclose a draft of a proposed reply to Mr. Irby, together with a memorandum prepared by your Counsel with respect to this matter, and you request the Board's comment on the proposed reply.

"The Board's letter of June 22, 1945, to all member banks, regarding the absorption of exchange charges, represents an

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"effort to provide a practical and satisfactory means of discharging the Board's responsibility under the law with respect to the payment of interest on demand deposits so far as the absorption of exchange is concerned; and, as a practical rule of operation, it should be regarded as taking precedence over any previous general statements or interpretations as to what constitutes a payment of interest, to the extent of any seeming inconsistency.

"In effect, the Board's letter declares that after August 1, 1945, the absorption of exchange charges in amounts aggregating not more than \$2 for any one depositor in any calendar month will be considered as trivial and will be disregarded, provided the bank keeps such records as the appropriate supervisory agency may require. The keeping of such records, of course, is necessary to determine whether or not the aggregate amount absorbed exceeds \$2.

"However, under the Board's letter, where a bank absorbs more than \$2 a month for any depositor, it will be presumed that the law has been violated. Consequently, in any such case, no one factor and no general rule or statement as to what is or is not a payment of interest, such as that referred to in the bank's letter in the present case, is necessarily conclusive as to whether the bank's practice constitutes a violation of the law. That question will be determined on the basis of such practice as may be followed by the bank after August 1, 1945, as disclosed by examinations of the bank and in the light of all the relevant facts and circumstances; and in determining the question, of course, it will then be in order to consider all pertinent factors, including that mentioned in the bank's letter.

"Consequently, if a bank absorbs exchange charges aggregating more than \$2 a month, or if it should elect to absorb all such charges for all of its customers, the bank should maintain records sufficient to enable the examiner to determine the facts and to include in his report information adequate to permit a determination of the question whether there is a violation of the law. It is obvious that the maintenance of such records is desirable for the bank's own protection so that all the pertinent facts may be readily available in order to show, if such be the case, that the absorption is not being utilized as a device for compensating depositors for the use of their funds. In the absence of such records there is no satisfactory method of ascertaining the facts.

"The bank's inquiry as to its practice of furnishing check-books to its depositors is not, of course, affected by the Board's letter of June 22, 1945, which related only to the absorption of exchange charges. In accordance with the policy

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"which has long been followed by the Board, this question, like other questions as to what constitutes a payment of interest on demand deposits, is one which the Board does not undertake to determine except on the basis of the facts developed by the examiner in the course of examinations of the bank.

"It is suggested that your proposed letter in reply to Mr. Irby be revised to such extent as may be appropriate in the light of the foregoing."

Approved unanimously, together with the following letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, with the understanding that copies of the two letters would be sent to the Presidents of the other Federal Reserve Banks:

"There is enclosed a copy of a letter which the Board has received from Mr. A. G. Kahn, President, Union National Bank of Little Rock, Arkansas, dated June 27, 1945, with respect to whether, under the Board's letter of June 22, 1945, a member bank may absorb exchange in the maximum amount of \$2 a month for any depositor regardless of the aggregate amount of exchange charges paid on items of that depositor during the month.

"The \$2 rule stated in the Board's letter of June 22, 1945, was intended to apply only to the question as to what constitutes trivial amounts and to indicate that where the aggregate amount of exchange charges paid for any one depositor during a calendar month does not exceed \$2, such amount will be regarded as trivial and its absorption by the bank will not be considered a violation of the law. Where a different practice is followed by a member bank after August 1, 1945, that is, where the bank pays exchange charges totaling more than \$2 for a customer during any one month, and absorbs all or any part of the amount paid, it will be presumed, as stated in the Board's letter of June 22, 1945, that the law has been violated; and in such a case the question whether absorption of exchange charges is being utilized as a device for payment of interest will be determined after a consideration of all the relevant facts and circumstances as developed by examinations of the particular bank.

"It will be appreciated if your Bank will make appropriate reply to Mr. Kahn's letter in the light of the views stated above. Mr. Kahn has not been advised of this reference."

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Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City, made as of May 2, 1945, by the Board's examiners, a copy of the report of the examination was left for your information and that of the directors. A copy was also furnished President Leedy.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comment you may care to offer regarding discussions with respect to the examination, or as to action taken, or to be taken as a result of the examination, will also be appreciated."

Approved unanimously.

Letter to Mr. Woolley, Vice President and Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

"Receipt is acknowledged of your letter of June 29, 1945, regarding the Management Bulletin issued by the United States Savings and Loan League respecting Amendment No. 16 to Regulation W.

"As you are doubtless aware, most of the answers were based upon S-490. Amendment No. 16 was not intended to alter the provision in section 12(f) of the regulation reading 'the amendment shall not prevent the performance of any valid contract made prior to the effective date of the amendment'. However, this provision relates to a specific contract to extend credit at some later time under which the prospective borrower has an enforceable right to obtain the credit. You will probably find that the mortgage agreements to which you refer are not of this character. They merely provide that if a subsequent advance is made, it shall have the advantage of the first lien, even if there have been intervening liens. In accordance with the views stated in S-490, we have taken the view that unless some action is taken at the time of the additional advance to consolidate it with the outstanding balance of the original loan so that there is a single obligation of the borrower, the mere fact that there are two obligations having the same lien does not permit them to be treated as one for the purposes of the regulation.

"When the provisions of Regulation W respecting the \$1,500 limit were under consideration, it was evident that there was no fundamental difference between two loans of \$800 (subject to the regulation) and one loan of \$1,600 (not subject to the



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"regulation) if the two loans were by the same lender to the same borrower and had similar purposes. However, the line was drawn at \$1,500 for administrative reasons, since it appeared that loans of over \$1,500 would, in the bulk, not be of a character that should be under a consumer credit regulation. S-490 was also based in part on administrative considerations, since it would be difficult to follow a portion of a loan of more than \$1,500 through renewals, refinancing, etc.

"With respect to your last question, it appears that the inference drawn from one of the answers in the Management Bulletin has not taken into consideration the facts in the case. The association is apparently willing to lend \$1,300, and, as you point out, this amount can be considered as being for the purpose of financing the purchase of the house and therefore exempt under section 8(a) as amended. The buyer can then use \$300 to complete payment on the house and have \$1,000 remaining with which he can pay for the improvements. The fact that the association might not lend \$1,300 unless the improvements were made would not, in our opinion, alter this conclusion."

Approved unanimously.

Letter to Mr. Bell, Under Secretary of the Treasury, reading as follows:

"Reference is made to your letter of June 21, enclosing copies of a proposed letter to the Speaker of the House of Representatives, a draft of a Joint Resolution and Memorandum relative to the classification of United States paper currency destroyed at Fort Mills, Philippine Islands, by agents of the High Commissioner by order of the President and the Secretary of the Treasury at the time of the Japanese invasion of the Philippine Islands.

"In response to your inquiry, the Board concurs in the proposed plan for adjustment in the currency accounts in so far as they relate to the amounts and denominations of Federal Reserve notes to be charged to the redemption funds of the various Federal Reserve Banks. The elimination is suggested, however, of the last sentence in the Memorandum under 'Currency of \$10 denomination' reading as follows:

'Any possible inequity in this classification will probably be offset by the recommended classification with respect to currency of \$5 denomination.'

The requirement that the several Federal Reserve Banks shall respectively reimburse the Federal Reserve redemption fund for the amounts paid by the Treasurer of the United States from such fund in Section 2 of the Joint Resolution is

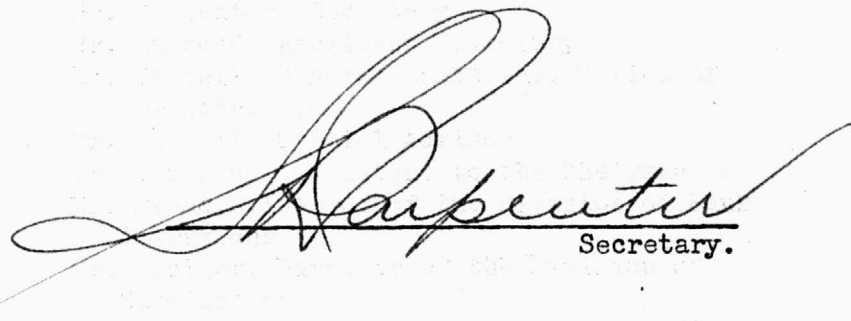


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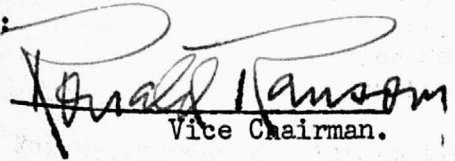
"unnecessary, since there is no reason to treat such amounts charged to this fund in any different fashion than amounts charged on account of the cancellation and destruction of unfit Federal Reserve notes received by the Treasury in the ordinary course of business."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Vice Chairman.