

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 16, 1945, at 3:00 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
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. Smead, Director of the Division of Bank
Operations
Mr. Paulger, Director of the Division of
Examinations
Mr. Leonard, Director of the Division of
Personnel Administration
Mr. Vest, General Attorney
Mr. Piser, Chief of the Government Securities
Section, Division of Research and
Statistics

For Mr. Szymczak's information, Mr. Ransom related briefly the developments that had taken place during Mr. Szymczak's absence concerning the suggestion that had been made with respect to the composition of the Board of Trustees of the Export-Import Bank and to the letters which had been sent to the Chairmen of the Banking and Currency Committees under date of July 12, 1945, proposing that the Board of Trustees consist of the same individuals as would compose the National Advisory Council on International Monetary and Financial Problems provided for in the Bretton Woods Agreements. He also said that this morning Mr. White, Assistant Secretary of the Treasury, called to say that Secretary Morgenthau had

7/16/45

-2-

received from the Board a copy of the letter sent to Congressman Spence but that, in view of the Secretary's pending resignation, if the Board wished to press for its position, it should present the matter to Secretary of the Treasury-elect Vinson. Mr. White also reported, Mr. Ransom said, that the Senate Committee was to consider the Export-Import Bank bill tomorrow and, it was thought, would make a report in substantial agreement with the House bill. Mr. Ransom said that he told Mr. White that Mr. Szymczak, who had been handling the matter for the Board, was out of the city, that the conversation with Mr. White would be reported to him, and that the Board would take such action in the matter as would appear to be desirable.

Mr. Szymczak stated that it did not appear to him to be desirable for the Board to make an issue of the position stated in the letters to the Chairmen of the Banking and Currency Committees, particularly in view of the fact that it was hoped to get the bill approved by Congress as quickly as possible. He felt, however, that if he or some other member of the Board were called upon to testify before the Senate Committee, it would be well to know what the position of the Board was with respect to the suggestion contained in the letters to Messrs. Wagner and Spence.

Mr. McKee stated that it was his feeling that the Board should drop the matter and not press for adoption of the suggestion contained in the letters referred to.

Mr. Ransom suggested that it would be better if, in all the circumstances, the Board would express a view on the matter and, therefore, he

7/16/45

-3-

suggested that the Board approve the letters to Messrs. Wagner and Spence in the form set forth in the minutes of the meeting of the Board on July 13, 1945.

Mr. Ransom's suggestion was approved, Mr. McKee voting "no."

At the request of Mr. McKee, Mr. Leonard reviewed the case of absence on account of illness of Mr. H. H. Hagler, Assistant Federal Reserve Examiner on the Field Force, who entered military service in 1942, served for approximately eight months in the South Pacific, and was discharged in May 1944 because of an arthritis condition. Mr. Hagler passed the usual physical examination at the time of his return to the employ of the Board but subsequently became ill and was now ill with undulant fever, which was directly attributable to his military service. When he entered the service, Mr. Leonard said, Mr. Hagler had 76 days of accumulated leave which had all been used since his return, that he had been given advanced sick leave of 30 days which would expire on July 20, 1945, and that, inasmuch as it was not expected that he would be able to return to work for some time, it had been suggested that he be granted additional sick leave of not to exceed three months, with the understanding that none of the leave that will have been granted up to the time of the expiration of the three months' period would be charged against leave subsequently accrued, that if he were able to return to work before the end of three months he would do so, and that otherwise the matter would be reviewed at the end of the period to determine what, if any, further action should be taken by the Board.

7/16/45

-4-

Mr. McKee stated that this was the first case presented to the Board involving extended sick leave for an employee of the Board who was a member of the Armed Forces during the present war and he expressed the opinion that until such time as the Government established a policy providing for adequate care in cases of this kind, the Board should follow a liberal policy in granting sick leave to veterans whose illness following their return could reasonably be traced to their military service.

After a discussion, during which it was pointed out that the action suggested by Mr. Leonard was not greatly different from that taken by the Board and the Reserve Banks in cases of deserving employees who were not veterans, upon motion by Mr. McKee, and by unanimous vote, Mr. Hagler was granted additional sick leave of not to exceed three months, beginning July 20, 1945, subject to the understanding stated by Mr. Leonard.

Mr. McKee presented a memorandum prepared by the Legal Division and the Division of Examinations under date of May 18, 1945, referring to the following condition of membership prescribed by the Board since 1933 for all of the banks exercising trust powers at the time of their admission to membership, and recommending that the Board waive compliance with the condition in the States (Connecticut and Colorado) where banks were prohibited by State laws or otherwise from making a valid pledge of securities as required by the condition:

"If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers."

7/16/45

-5-

The matter was discussed in the light of the information contained in the memorandum, and Mr. McKee stated that he would recommend approval of the recommendation for the reasons stated therein. It was pointed out that in Connecticut and Colorado compliance with the condition required the banks involved to deposit uninvested trust funds in another institution, and Mr. Ransom stated that he regarded the rule recognized in the condition of membership as being entirely sound and that he would be troubled about any action that would amount to a retreat from the rule.

The conditions suggesting the desirability of a waiver of compliance with the condition, as set forth in the memorandum were reviewed and there was agreement with the statement that the existing situation was not satisfactory because it operated to prevent banks, particularly in Connecticut, from becoming members of the System, that no entirely satisfactory solution of the problem had been proposed, and that the recommended waiver of compliance with the condition by banks in the two States mentioned was the best disposition of the matter that had been found.

At the conclusion of the discussion, Mr. McKee moved that the Board approve the following letter to the Presidents of all the Federal Reserve Banks:

"The Board for a number of years has prescribed the following standard condition of membership for all State banks and trust companies exercising trust powers at the time of their admission to membership:

'If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business,

7/16/45

-6-

"it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.'

"Recently the Board has been requested to reconsider the question of eliminating this condition in those cases in which a valid pledge of securities cannot be made under the laws of a particular State. Compliance with this condition has had the effect of either compelling the bank or trust company to make possibly an illegal pledge or prohibiting the use of trust funds in the commercial or savings departments although permitted under State law to do so.

"So far as the Board is now informed, State member banks in Colorado and Connecticut are the only ones with respect to which there is any current problem. Therefore, the Board has waived compliance with this condition in those States, reserving the right to require full compliance with such condition at a later date if deemed necessary."

Mr. McKee's motion was put by the chair and carried unanimously.

Unanimous approval was also given to the following letter to Mr. Sproul, President of the Federal Reserve Bank of New York, with the understanding that similar letters would be sent to the President of the Federal Reserve Bank of Boston with respect to Connecticut State banks in the First Federal Reserve District and to the President of the Federal Reserve Bank of Kansas City with respect to State banks in Colorado:

"This refers to the letter which Mr. Gidney, as Vice President of the Federal Reserve Bank of New York, addressed to the Board under date of October 31, 1944, requesting reconsideration of the question of eliminating from the standard conditions of membership imposed upon Connecticut State banks exercising trust powers, the condition requiring the deposit of securities with the trust department if funds held by the bank as fiduciary are used in its commercial or savings departments. This action was requested because State banks in Connecticut may not secure one type of deposit over another and compliance with this condition has the effect of either compelling the bank to make possibly an illegal pledge or prohibiting the bank from using the trust funds in its commercial or savings departments, although authorized by State law to do so.

7/16/45

-7-

"After carefully considering this situation, the Board has decided to waive compliance with this condition of membership by member State banks and trust companies which may not under State law make a valid pledge of securities to protect trust funds deposited in their commercial or savings departments. Accordingly, it is requested that you advise in writing each State bank or trust company in the State of Connecticut in your District which is a member of the Federal Reserve System and which is subject to the condition of membership referred to above that the Board waives compliance with the requirements of such condition. In doing so, you should in each case, of course, make it entirely clear that the Board reserves the right to require full compliance with such condition at a later date if deemed necessary. Please forward to the Board for its records a copy of the letter you furnish to the banks or trust companies in the State of Connecticut."

At this point Mr. Paulger withdrew from the meeting.

In accordance with the understanding reached at the meeting on July 13, 1945, further consideration was given to the request of the Federal Reserve Bank of St. Louis for approval of an additional expenditure of \$64,000 for the construction of a three-level instead of the two-level garage previously planned in the head-office building program of the Bank.

Mr. Ransom stated that he was in agreement with the view expressed by Chairman Eccles that the Reserve Banks should not undertake any major building projects until it was clear that such projects would not compete for scarce materials and labor, and that, therefore, he would not be in favor of any further expansion in the St. Louis building program at this time. In this connection, reference was made to a memorandum from Mr. Smead dated July 16, 1945, which stated that, while the Bank had all priorities necessary for modernizing the basement and closing in the first floor of the Nugent building, priorities had not been obtained for the construction of the garage. The memorandum also said, however, that the

7/16/45

-8-

War Production Board was loosening up considerably on priorities and that there appeared to be a surplus of construction labor in St. Louis.

Mr. Szymczak stated that, in view of the fact that the Board had already authorized the expenditure of \$71,000 for the two-level garage and since the request for the additional amount would appear to be a desirable change in the plans, he would prefer to approve the request.

At the conclusion of a discussion, Mr. Szymczak moved that the request be approved and that the Bank be advised by wire as follows:

"Relet June 16, Board will interpose no objection to additional expenditure of approximately \$64,000 in constructing three-level garage instead of two-level garage originally planned."

Mr. Szymczak's motion was put by the chair and carried, Mr. Ransom voting "no."

In connection with the above action, reference was made to a further statement in Mr. Smead's memorandum of July 16, 1945, that the directors of the Little Rock Branch had recommended that a third story be added to the branch building, and that the directors of the Bank had approved the recommendation with the understanding that the construction would not be undertaken until the materials situation was favorable. No action was called for on this matter at this time, but the members of the Board indicated agreement with the opinion that the job should be delayed until it was clear that the construction would not compete for scarce labor and materials.

Following consideration of the above matter, Mr. Smead left the meeting.

7/16/45

-9-

Mr. Ransom stated that this morning he wired Chairman Eccles and Mr. Draper to advise them that the nomination of Mr. Vinson as Secretary of the Treasury was sent to the Senate today, that it was expected he would take office this week, and that in these circumstances and in view of the fact that the four or five Reserve Banks that had expressed willingness to eliminate the preferential rate had largely done so on the theory that any action would be uniform action by all Banks, it was thought desirable that Mr. Vinson be given an opportunity to consider the proposal before action was taken. Mr. Ransom's wire also suggested that if Messrs. Eccles or Draper had any other view they call on the telephone.

It was Mr. Ransom's feeling that although this meeting had been called for the purpose of considering the action to be taken on the preferential discount rate, he did not see anything that could be done until Mr. Vinson had been informed that the Board proposed to eliminate the rate and he had had an opportunity to consider the matter. Mr. Ransom also said that several days ago Mr. Vinson had agreed to have lunch with him tomorrow and that it might be possible at that time to acquaint Mr. Vinson with the situation with respect to the proposed elimination of the preferential rate.

Mr. Ransom made the further statement that he had asked Mr. Piser, Chief of the Government Securities Section, Division of Research and Statistics, to prepare a brief memorandum setting forth the arguments for and against the elimination of the preferential rate and that it was

7/16/45

-10-

his (Mr. Ransom's) thought that he would use the memorandum to present the whole matter to Mr. Vinson. At Mr. Ransom's request a draft of the memorandum was read.

The other members of the Board were in agreement that no action should be taken until Mr. Vinson had been acquainted with the proposed action but that unless he raised some objection thereto, prompt action should be taken.

There followed a general discussion of the timing and method to be followed in making the proposed action effective. While this discussion was in progress, Mr. Thurston left the meeting to take a telephone call from Mr. Draper and upon his return stated that Mr. Draper had said that he favored the elimination of the preferential rate as promptly as possible but that, because of the situation resulting from the appointment of a new Secretary of the Treasury, he would leave the timing of the action to the decision of the members of the Board who were in Washington.

Mr. McKee stated that he planned to leave Washington tomorrow for his vacation, and it was suggested that in these circumstances it might be desirable to have an expression from the members of the Board present at this meeting as to the action to be taken.

Upon motion by Mr. Evans, it was agreed unanimously that the preferential rate should be discontinued as promptly as possible after Mr. Ransom had had an opportunity to inform Secretary of the Treasury-elect Vinson of what the Board, in the absence of objection, proposed to do and he had had an opportunity to consider the proposal.

7/16/45

-11-

Following this action, Mr. Ransom received a telephone call from Chairman Eccles and the meeting moved into the Conference Room so that both sides of the conversation could be heard over the loud speaker telephone. Chairman Eccles said that he had received Mr. Ransom's wire and had also read the telegraphic replies received from the Federal Reserve Banks with respect to the preferential rate, and that he was still of the opinion that it should be eliminated. During the conversation, Mr. Ransom told Chairman Eccles of his luncheon appointment with Mr. Vinson tomorrow and that it had been agreed by the members of the Board in Washington that at that time he should acquaint Mr. Vinson with the circumstances surrounding the proposal to eliminate the preferential rate and the reasons why, in the opinion of the Board and several of the Federal Reserve Banks, that action should be taken. Mr. Ransom made it clear that he did not intend to ask Mr. Vinson to express an opinion but simply to inform him of the action which the Board under the law had full authority to take and, in the absence of objection, would take. He also made it clear that he would not present the matter to Mr. Vinson as a conflict between the Board and some of the Reserve Banks on which we were asking Mr. Vinson to take a position.

Following the telephone conversation with Chairman Eccles, it was agreed by members of the Board that, inasmuch as Mr. Vinson as Secretary of the Treasury presumably would have access to the letter addressed to Secretary Morgenthau on July 9, and the memorandum sent to him by members of the Executive Committee of the Federal Open Market Committee

7/16/45

-12-

on the following day with respect to future Treasury financing policy, Mr. Ransom should not submit any further memorandum to Mr. Vinson, but should present the matter to him in the manner which he had outlined to Chairman Eccles over the telephone.

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

The action stated with respect to each of the matters herein-after 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 11, 1945, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 12 and 13 were approved and the actions recorded therein were ratified unanimously.

Letter to Mr. M. G. Wallace, Counsel, Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of June 26, 1945, stating that the First National Bank of Harrisonburg has requested your Bank to obtain a ruling from the Board as to whether or not Mr. John L. Heatwole, one of the Assistant Cashiers of that bank, is an executive officer within the meaning of Regulation O.

"Your letter states that the actual duties of Mr. Heatwole are those commonly performed by the note teller of a bank; that he and his assistant perform the clerical work incidental to the handling and keeping of all notes discounted by the bank and of all papers and collateral pertaining thereto; and that he also handles ration banking accounts of the bank. Mr. Heatwole does not and is not authorized to allow extensions of credit or to pass upon loans or renewals thereof or to make investments. He reports directly to the President and Executive Vice President and does not control or direct the activities of any employee except his assistant. We also note that his name appears as an executive officer on the signature card furnished by the bank to your Bank as well as other correspondent banks, but as

7/16/45

-13-

"you state, signature cards seldom undertake to define the exact authority of any officer. It is also noted that the resolution filed by the bank with the Federal Reserve Bank specifying the officers who may act for the bank in borrowing and rediscounting negotiable paper includes assistant cashiers.

"On the basis of the facts contained in your letter, the Board agrees with your statement that the actual duties of Mr. Heatwole are not those of an executive officer; that he does not actually participate in the operating management of the bank; and that he is not actually authorized to participate in the operating management of the bank. In the circumstances, the Board is of the opinion that Mr. Heatwole should not be regarded as an executive officer within the meaning of that term as defined in the Board's Regulation O."

Approved unanimously.

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

"This refers to your letter of July 7, 1945, enclosing a copy of a letter received by you from Mr. Angus E. Bird, Chairman of the Board of The Citizens & Southern National Bank of South Carolina, requesting a definite ruling as to whether a certain arrangement is in violation of Regulation Q; and you request to be advised as to whether the Board agrees with the views expressed by your Counsel in a memorandum enclosed with your letter.

"The Board fully appreciates the natural desire of any member bank to be certain that the practices followed by it do not involve a violation of the law. However, it is not feasible for the Board to issue detailed interpretations or rulings with reference to whether particular practices, such as that described by Mr. Bird, constitute a payment of interest in violation of the law and Regulation Q, particularly when there is involved the question whether the practice may have the effect of circumventing the purpose of the law. Necessarily, these questions cannot be determined except from a thorough investigation and consideration of all the facts and circumstances of the particular case.

"In accordance with the policy announced by the Board in its letter of June 22, 1945, to all member banks, where a member bank absorbs exchange in amounts aggregating more than \$2 for any one depositor in any calendar month or in any other regularly established period of 30 days, it will be presumed that the law has been violated. Accordingly, in any such case, the question whether a particular practice involves a payment of interest is one which will be determined only after all the pertinent facts

7/16/45

-14-

"are developed in the course of examinations of the member bank with respect to which the question may be raised.

"The Board feels that it would be impracticable for it to undertake to pass upon questions of this kind unless and until it has before it information as to all the circumstances of the case as disclosed by reports of examination. Until the question is so presented in a particular case, the Board prefers to rely upon the cooperation of member banks in adapting their practices to conform to the spirit and purpose of the statutory prohibition against the payment of interest on demand deposits.

"It is suggested that the substance of the above views be included in any reply which you may make to Mr. Bird in this case, or in answer to similar questions in other cases."

Approved unanimously.

Letter to Mr. James J. Wengert, Editor, Mid-Continent Banker, St. Louis, Missouri, reading as follows:

"I have read with interest your letter of June 28, 1945, with reference to certain letters from country bankers published in the May and June issues of the Mid-Continent Banker commenting upon the services furnished by their city correspondents.

"In your letter you quote from a letter received from an Indiana banker with respect to the service provided by some banks of making free shipments of coin and currency; and you raise the question whether such a service would necessarily be a violation of the Board's Regulation Q.

"The Board fully appreciates the natural desire of any bank to be informed in advance that practices followed by it do not involve a violation of the law. However, the question whether a specific practice such as that in the present case constitutes a payment of interest cannot ordinarily be determined except after a consideration of all the facts and circumstances of each particular case as developed in the course of examinations of the bank involved.

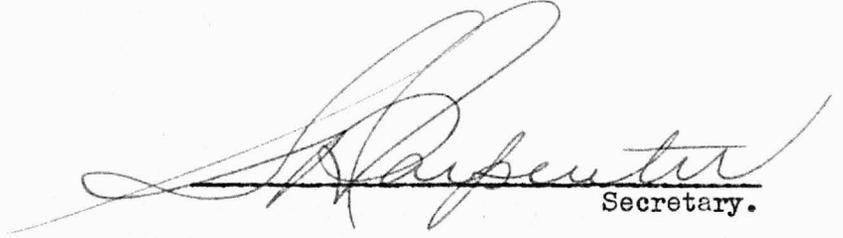
"For these reasons, I am sure that you will understand that it would not be feasible for the Board to undertake to issue advance rulings upon questions of the kind raised in your letter until all the pertinent facts of the case are disclosed by examinations of any member bank with respect to which the question may be involved. Until such time, the Board prefers to rely upon the cooperation of member banks in adapting their practices to conform to the spirit and purpose of the statutory prohibition against the payment of interest on demand deposits."

Approved unanimously.

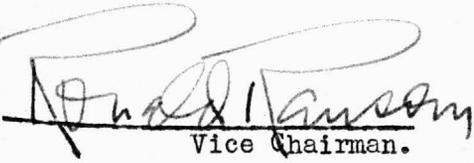
7/16/45

-15-

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.