A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 30, 1945, at 4:45 p.m.

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

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

Reference was made to a letter received from Mr. Vinson, Secretary of the Treasury, under date of July 27, 1945, enclosing copies of communications from Senators McKellar, Stewart, and Maybank and Congressman Brown, in which they suggested that Mr. Vinson request the Board to suspend until January 1, 1946, the procedure set forth in the Board's letter of June 22, 1945, with respect to the absorption of exchange charges by member banks.

Mr. Ransom stated that at his request Mr. Carpenter had sent to Governor McKee a copy of the letter and its enclosures with the suggestion that he call on the telephone and suggest the form of reply that should be made. After talking with Mr. McKee, Mr. Ransom said, Mr. Carpenter prepared a draft of reply to the letters which was read to Mr. McKee over the telephone and which was satisfactory to him except that he preferred to avoid making any specific reference to the suspension of the procedure referred to in the Board's letter of June 22, 1945.

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There ensued a discussion as to how Mr. McKee's suggestion could be met, and the following reply to the letter from Senator Maybank was approved unanimously, with the understanding that substantially the same replies would be made to the letter from Senators McKellar and Stewart and the wire from Congressman Brown:

"As Secretary Vinson advised you in his letter of July 27, 1945, he has referred to the Board of Governors for consideration your letter of July 19, in which you suggest that he request that the order with respect to Regulation Q issued by the Board to become effective August 1, 1945, be suspended until January 1, 1946, so that Congress might again give the matter consideration when it returns from its recess this fall. It is assumed that your letter refers to the procedure outlined in the letter which the Board on June 22, 1945, addressed to all banks which are members of the Federal Reserve System.

"You are familiar with the circumstances under which the Board has taken the position that in certain circumstances the absorption of exchange charges by a member bank constitutes a 'payment of interest' in violation of Section 19 of the Federal Reserve Act. The reasons for the Board's position in this matter were thoroughly examined during the hearings before the Senate Banking and Currency Committee on the Brown-Maybank bill, which you attended. The Board's letter of June 22, 1945, a copy of which is enclosed, makes no change in the Board's position as to the law on this matter but represents an effort to clarify the question in the minds of member banks as to what extent the absorption of small amounts of exchange would be regarded as trivial and not in violation of the applicable provision of the law. A number of member banks had requested a statement from the Board as to what amounts would be regarded as trivial and it was only after full and complete discussion with representatives of many of the member banks primarily interested and in response to their own suggestion that the Board's letter of June 22, 1945, was sent.

"In these circumstances, the Board does not believe that member banks should be deprived of the clarification that the letter of June 22, 1945, affords in determining

"what constitutes compliance with the provision of existing law which prohibits the payment of interest on demand deposits by any device whatsoever."

Mr. Carpenter then presented a memorandum dated July 30, 1945, from Mr. Leonard, Director of the Division of Personnel Administration, relating to a proposed arrangement in connection with the resignation of Howard P. Preston, First Vice President of the Federal Reserve Bank of Chicago. Accompanying the memorandum was a letter from President Young under date of July 26, 1945, which stated that he had been authorized by the board of directors to inform Mr. Preston that he would not be reappointed for another five-year term commencing March 1, 1946, and that the Bank would pay him $12,500 covering his services for the period August 1, 1945, to February 28, 1946, inclusive, or, if it were possible to obtain the approval of the Board of Governors, the Bank would pay into the retirement system for Mr. Preston's benefit the sum of $12,500. The letter also stated that Mr. Preston had asked that approval of the latter arrangement be requested.

The memorandum from Mr. Leonard stated that, in view of the understanding that he had from previous discussions that the directors proposed to accept the resignation of Mr. Preston and pay him an amount equal to his salary to the end of his term, February 28, 1946, and the statement in Mr. Young's letter that they would pay six months salary for a seven months' period, inquiry had been made of Mr. Young as to what the Bank intended to do, and that Mr. Young advised by wire that

the date of Mr. Preston's resignation was uncertain but that if he resigned as of July 31, 1945, the directors would like to pay an amount equal to seven months' salary, but that if he should go on vacation on August 1, 1945, and resign as of August 31, the payment would be an amount equal to six months' salary. The memorandum further stated that the net proposal was that Mr. Preston's active service with the Bank terminate promptly and that he receive, either in salary or in payment to the retirement system, a sum equivalent to the salary for the remainder of his term.

After a brief discussion, upon motion of Mr. Szymczak, the following telegram to Mr. Young was approved unanimously.

"Board approves payment either to the individual or to Retirement System for his account of sum proposed in your letter of July 26, 1945, and modified in your telegram of July 30."

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

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

Memorandum dated July 25, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Victor M. Longstreet, an Economist in that Division, who had been on military leave since May 1942, and recommending that the resignation be accepted as of the close of business July 10, 1945. In this connection reference was also made to a memorandum dated July

25, 1945, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that a lump sum payment be made to Mr. Longstreet for the accumulated annual leave standing to his credit. The memorandum also recommended that in any other similar case where an employee who had been on military leave accepted employment with another Federal agency instead of returning to the Board, a lump sum payment be made for the accumulated annual leave remaining to his credit.

The resignation was accepted as recommended, and the recommendations contained in Mr. Leonard's memorandum were approved unanimously.

Letter dated July 28, 1945, to Mr. Laning, Vice President and Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of July 7, 1945, the Board of Governors approves, effective July 1, 1945, the payment of salaries in excess of the maximum annual salaries established under the personnel classification plan for the positions occupied as follows:

Name	Title	Annual Salary
Miss Irene M. Bagley	Secretary to President	$3,200
Miss Dorothy Druckenbrod	Secretary to First Vice President	2,650
Miss Cora L. King	Secretary to Vice President	2,650
Mrs. Elizabeth Thomas Ott	Secretary to Vice President (in charge of Cincinnati Branch)	2,650"

Approved unanimously, together with

a letter to the Commissioner of Internal Revenue, Salary Stabilization Unit, transmitting copies of a certificate of the Federal Reserve Bank of Cleveland with respect to the salary changes referred to above.

Letters to the "Midland Bank," Midland, Pennsylvania, "The Cynthiana State Bank," Cynthiana, Indiana, and the "Bank of Ripley," Ripley, Tennessee, 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."

Approved unanimously.

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

"There is enclosed a copy of a letter which the Board has received from Mr. William I. Howbert, President, The First National Bank of Colorado Springs, Colorado, dated July 19, 1945, asking whether the absorption of certain charges in excess of $2 per month in the collection of coupons and maturing bonds for its customers may be permitted.

"It seems apparent that Mr. Howbert's letter has reference to the Board's letter of June 22, 1945, addressed to all member banks regarding the absorption of exchange charges. The procedure set forth in that letter, of course, is not applicable to the absorption of charges of the kind mentioned in Mr. Howbert's letter.

"The Board fully appreciates the natural desire of any bank to be informed in advance if the practices followed by it do not involve a violation of the law. However, as you know, the question whether a specific practice,

"such as that described in Mr. Howbert's letter, 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 this reason, it would not be feasible for the Board to undertake to issue advance rulings upon such questions until all the pertinent facts of the particular case are disclosed by examinations of the bank. Until such time, the Board will 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 will be appreciated if your Bank will make an appropriate reply to Mr. Howbert's inquiry along the lines indicated above. We have advised Mr. Howbert that his letter has been referred to your Bank for reply in accordance with the Board's usual practice in cases of this kind."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"In view of the passage by Congress of the Act of June 12, 1945, amending the provisions of the Federal Reserve Act relating to the reserves required to be maintained by Federal Reserve Banks and the tax upon deficiencies in such reserves, it is necessary to revise the Board's instructions now outstanding in letters and telegrams on this subject.

"Accordingly, the Board hereby rescinds that portion of the Board's letter of November 27, 1935 (X-9375; F.R.L.S. #5800), relating to the reserve required against Federal Reserve notes and penalties for deficiencies in such reserve, and also the Board's telegrams of March 8, 1933 (Trans. #1580) and March 13, 1933 (Trans. #1650), relating to penalties for deficiencies in the reserve required to be maintained against deposits of Federal Reserve Banks.

"If at any time the gold certificate reserve required by law to be held by a Federal Reserve Bank against Federal Reserve notes in actual circulation falls below 25 per cent thereof, such Federal Reserve Bank shall pay a tax on such

"deficiency computed as follows:

When such reserve falls below 25 per centum, but is not less than 20 per centum, the tax upon the deficiency shall be at the rate of 1/2 of 1 per centum per annum.

When such reserve falls below 20 per centum, but is not less than 17-1/2 per centum, the tax on the deficiency below 20 per centum shall be at the rate of 2 per centum per annum.

When such reserve falls below 17-1/2 per centum, but is not less than 15 per centum, the tax on the deficiency below 17-1/2 per centum shall be at the rate of 3-1/2 per centum per annum; and so on, increasing the tax at the rate of 1-1/2 per centum per annum upon each further deficiency in the reserve amounting to 2-1/2 per centum or any fraction thereof.

"If at any time the gold certificate reserve required by law to be held by a Federal Reserve Bank against its deposits falls below 25 per centum thereof, such Federal Reserve Bank shall pay a tax on such deficiency computed according to the same formula as that specified above for the computation of the tax on deficiencies in the reserve against Federal Reserve notes in actual circulation."

Approved unanimously.

Letter dated July 28, 1945, to Mrs. Valerie R. Frank, Secretary, Retirement Committee, Retirement System of the Federal Reserve Banks, Federal Reserve Bank of New York, reading as follows:

"The last sentence of paragraph (1) of the resolution establishing the Board Plan states that an employee who elects after December 15, 1943, to become a participant in the Board Plan shall become a participant 'as of the first day of the next succeeding semi-monthly pay roll period.'

"As you know, effective July 1, 1945, the Board changed from a semi-monthly to a bi-weekly pay roll period. In view of the change, the term semi-monthly no longer has any significance and should be disregarded, and the provision should be interpreted as making participation effective

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"'as of the first day of the next succeeding pay roll period.'"

Approved unanimously.

Thereupon the meeting adjourned.

Secretary.

Approved:

Vice Chairman.