A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 8, 1945, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
        Mr. Draper

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

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

Memorandum dated August 7, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Gordon P. Johnson, a messenger in the Board Members' Section, be transferred to the position of Operator, Duplicating Devices, in the Division of Administrative Services, and that his salary be increased from $1,836 to $1,902 per annum, effective August 12, 1945.

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"There is enclosed a copy of a letter which the Board has received from Mr. Thomas Motlow, President, The Farmers Bank, Lynchburg, Tennessee, a nonmember bank, regarding the practice of banks in neighboring towns of making a charge for the collection of checks drawn on out-of-town banks.

"Mr. Motlow states that his bank has always been on the par list, but complains that its checks are not 'honored at par' because banks in other towns make charges for the collection of checks drawn on his bank. This practice, according to Mr. Motlow, has caused some of his depositors to carry accounts with those banks in order to avoid payment of such charges. It seems clear that the charges in question are not exchange charges but charges made by banks for
The service of collecting out-of-town checks.

As you know, in so far as member banks are concerned, there is no provision of Federal law or regulation prohibiting a bank from making a charge for the collection of checks drawn on other banks. As a matter of fact, while section 16 of the Federal Reserve Act provides for the fixing by the Board of Governors of charges to be collected by member banks from their patrons in collecting their checks, the law states that 'nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense involved in collecting and remitting funds'. Since the actual expenses of various banks in various situations must necessarily differ, it would be impossible for the Board to fix a rule of general application, if, indeed, it would not be impossible for a bank itself to ascertain such costs with respect to specific items. Accordingly, the Board has not issued a regulation with regard to such collection charges made by banks, although it seems desirable from the standpoint of both the bank and its depositors to keep any such charges within reasonable limits in relation to the expense to the bank involved in collecting the checks. The right of nonmember banks to make collection charges of this kind likewise, of course, is unrestricted, unless specifically governed by provisions of State law.

"It will be appreciated if your Bank will make appropriate reply to Mr. Motlow's letter in the light of the above. We have advised Mr. Motlow that his inquiry is being referred to your Bank in accordance with the Board's usual practice."

Approved unanimously.

Letter to Mr. Strothman, Assistant Counsel of the Federal Reserve Bank of Minneapolis, reading as follows:

"This is in reply to your letter of July 21, 1945, asking, first, whether a Registrant may, after November 1, 1945, purchase and receive payments upon instalment sales contracts which appear to have been entered into prior to that date and which have maturities of 24 months as permitted under section 13(f) of Regulation W, and, second, if the answer to the first question is in the affirmative, whether the fact that the contract is not tendered to the Registrant for purchase until several months after November 1, 1945, is sufficient to put it on notice of any failure of the installment vendor to comply with the requirements of the Regulation."
"The Regulation permits a Registrant to purchase and receive payments on a contract if the contract conformed to the requirements of the Regulation and section 13(f) thereof at the time it was entered into, and the time of purchase is immaterial. One who purchases or discounts a contract may make or receive payments in connection with it unless, at the time of purchase or discount, it shows on its face a failure to comply with the requirements of the Regulation or the Registrant knows of any such failure to comply. However, it is probably fair to assume that the Registrant to whom you refer would not be satisfied if the dealers with whom it was doing business were flagrantly violating the Regulation, and that it would wish to avoid any possible implication that it was participating in any such violations. Consequently, even though the mere fact that the purchase or discount was completed after November 1, 1945, would not, in itself, be notice of a violation of the Regulation, there might be other circumstances which would lead the Registrant to feel that some inquiry would be desirable.

"Of course, no general answer may be given to the question whether the Registrant may be said to have known any fact which showed that the credit failed to comply with the Regulation. However, one example might be mentioned. If the procedure in connection with such extensions of credit requires the dealer to clear a credit transaction with the finance company before entering into it and if transactions which have been cleared after November 1 later appear as obligations dated before November 1, the finance company would have knowledge of the violation."

Approved unanimously.

Letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This is in reply to your letter of July 25, 1945, enclosing a copy of a letter from the Association of Bank Mortgage Officers of San Francisco relative to Regulation W. The Association suggests that real estate loans be exempt from the regulation.

"The Board assumes that the Association is familiar with the reasons which underlie Regulation W. It has concluded that no exemption for real estate loans, as such, is justified at this time, because such loans contribute just as much to the inflationary pressure as loans not secured by real estate. Furthermore, it would seem particularly unwise
"Under prevailing conditions in the real estate market to encourage borrowing for the purchasing of unimproved property. Your correspondent makes reference to the fact that loans above $1,500 are not subject to the regulation. You may wish to call his attention to the fact that the distinction between loans below and above $1,500 was made simply in the interest of easing the burden on lenders. Few loans above $1,500 are contrary to the objectives of the regulation since almost all of them are obtained to facilitate the supplying of goods and services, and the more goods and services are available the smaller the danger of inflation. If, however, much resort was made to large loans for consumer purposes, the regulation would have to be changed to take that development into account."

Approved unanimously.

Letter to Mr. Johnson, Director and Chairman, War Committee on Conventions, Office of Defense Transportation, Washington, D. C., reading as follows:

"Receipt is acknowledged of your letter of July 18, 1945, asking that the Board furnish you with a progress report on curtailment of travel effected by this organization in connection with the Government travel reduction program.

"With respect to measures instituted to reduce travel by Board personnel, Mr. Thurston, Assistant to the Chairman, wrote you under date of July 11, 1945, that copies of your letter of July 10, outlining the need for further curtailment of travel, were being distributed not only in our offices here in Washington but to all of the Federal Reserve Banks. Mr. Thurston also advised you that the Federal Reserve System would continue to make every effort to cooperate in the travel curtailment program to the fullest extent consistent with essential business. You may be assured that the System will continue to observe this policy.

"In response to your inquiry as to the percentage of reduction in the Board's travel costs for the first six months of 1945 as compared with the same period of 1944, we are pleased to inform you that a reduction of 22 per cent was effected.

"With reference to questions in the closing paragraph of your letter, eight members of the Board's staff attended group meetings in cities outside of Washington during the
"months of June and July, and twenty-eight persons located outside of Washington attended group meetings in Washington during those months at our request."

Approved unanimously.

Thereupon the meeting adjourned.

[Signature]

Secretary.

Approved:

[Vice Chairman]