

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 14, 1945, at 10:30 a.m.

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

Mr. Hammond, Assistant Secretary
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Parry, Director of the Division
of Security Loans
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Thomas, Director of the Division
of Research and Statistics
Mr. Vest, General Attorney
Mr. Brown, Assistant Director of the
Division of Security Loans
Mr. Wyatt, General Counsel

There were presented telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, 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, and Mr. Caldwell, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, stating that the Board approves

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the establishment without change by the Federal Reserve Bank of Atlanta on September 12, by the Federal Reserve Banks of New York, Richmond, St. Louis, Minneapolis, and Kansas City on September 13, 1945, and by the Federal Reserve Banks of Boston and Chicago today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Ransom presented a proposed amendment to Regulation W, Consumer Credit, to exempt credits for home repairs and improvements and to lengthen from 12 to 18 months the maturity limitation on all loans which are not for the purpose of purchasing consumers' durable goods.

After the discussion which followed it was agreed that, in view of the likelihood that the Office of Economic Stabilization and Reconversion would shortly relax restrictions on construction controls, it would be more appropriate if action by the Board as contemplated in the proposed amendment be deferred till thereafter, and accordingly the Secretary was requested to place the matter on the docket for further consideration at a later meeting of the Board.

At this point Messrs. Smead and Horbett joined the meeting, and Messrs. Parry and Brown withdrew.

Mr. McKee referred to a memorandum from Mr. Smead dated September 7, 1945, recommending approval of the request of the banks in Savannah, Georgia, that the reserve city designation of that city be

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discontinued. This matter had been previously discussed at a meeting of the Board on June 28, but at Mr. McKee's request action had been postponed in order to afford the Board an opportunity to review the situation of other comparable cities. Mr. McKee pointed out that changes in reserve city designation had been undertaken only on the initiative of the banks in the cities concerned and that there had not been any over-all attempt to equalize differences in reserve and nonreserve cities. To equalize the many disparities between the two, there being many nonreserve cities of much larger size and with much larger deposits, including inter-bank deposits, than were found in many reserve cities, would take much time and thought. In these circumstances, Mr. McKee felt that action on the Savannah petition should not be deferred for consideration of the entire problem.

Upon motion of Mr. McKee the petition of the banks in Savannah, requesting that the designation of Savannah as a reserve city be discontinued, was unanimously approved, and, pursuant to the provisions of Section 11 of the Federal Reserve Act, such termination shall be effective October 1, 1945.

It was generally agreed that this whole matter of basing reserves on classification of banks by cities was of sufficient importance to bring to the attention of the Presidents' Conference and that it should be left to Mr. McKee to present it to the Conference.

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At this point Messrs. Smead, Leonard, Thomas, Vest, Horbett, and Wyatt withdrew from the meeting.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 13, 1945, were approved unanimously.

Letter to the board of directors of the "Barnes Banking Company," Kaysville, Utah, 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 San Francisco.

Approved unanimously, together with a letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Barnes Banking Company', Kaysville, Utah, 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 Bank Commissioner for the State of Utah for his information.

"In view of the unusual circumstances in this case and in accordance with your suggestion, the Board has no

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"objection to admitting the bank to membership as of June 19, 1945, and the certificate of membership when issued will bear that date.

"It is assumed that, if he has not already done so, Counsel for the Reserve Bank will review all agreements and contracts entered into between the presently operating institution and its predecessor covering the purchase of assets from, and the assumption of liabilities of, that institution and any and all other agreements and contracts between such institution and the stockholders and/or directors or other individuals or concerns, incident to the organization of the new bank, and will satisfy himself as to their legal aspects. It is requested that a copy of the opinion of your Counsel given in this connection, together with copies of such agreements and contracts, be forwarded to the Board as soon as possible."

Letter prepared for the signature of Vice Chairman Ransom to Congressman Brent Spence reading as follows:

"In accordance with the request contained in your letter of August 11, 1945, we have drafted the enclosed letter with the thought that a copy of it may properly accompany your answer to Mr. A. B. Renaker, President, Peoples Deposit Bank, Burlington, Kentucky, relating to the question of absorption of exchange charges by member banks. I am hopeful that you will find the letter satisfactory and if I can be of further assistance please let me know.

"Mr. Renaker's letter is returned herewith, together with an extra copy, for your files, of the Board's letter of June 22, 1945, referred to in our correspondence."

Approved unanimously, together with
the letter referred to above reading as
follows:

"This refers to your letter of August 11, 1945, requesting information with regard to a 'ruling' by the Board of Governors of the Federal Reserve System with respect to the absorption of exchange charges by member banks.

"It seems evident that your inquiry has reference to

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"a letter which the Board sent to all member banks of the Federal Reserve System under date of June 22, 1945, and a copy of that letter is enclosed for your information.

"As you know, in 1933 Congress amended the Federal Reserve Act by adding a provision which prohibits any member bank from paying interest on a demand deposit 'directly or indirectly, by any device whatsoever'. The Board of Governors of the Federal Reserve System is charged with the responsibility of enforcing this provision and is expressly authorized by the law to determine what shall be deemed to be a payment of interest. Following the ordinary meaning given the term by the courts in decided cases, the Board defined 'interest' in its Regulation Q as 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit'. Consequently, the Board has taken the position that where the circumstances of a specific case indicate that exchange charges are being paid and absorbed by a member bank as a means of compensating its depositor for the use of funds constituting a deposit, the absorption of such charges constitutes a 'payment of interest' in violation of the law.

"No doubt you will recall that during 1944 Congress had under consideration a bill which would have expressly declared that the absorption of exchange charges by member banks should not be considered a payment of interest but that this bill was defeated in the Senate.

"The Board's letter of June 22, 1945, makes no change in the Board's position as to the law on this matter, but represents merely an effort to clarify for member banks the question as to what extent the absorption of small amounts of exchange would be regarded as trivial and would therefore be disregarded in considering violations 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 the letter was written only after full and complete discussion with representatives of a large number of the member banks primarily interested and in response to their own suggestion."

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

"For your information, there is enclosed a photostat

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"of a memorandum received by the Board from Lieutenant Commander George W. Cook, Jr., Chief of Finance Division of the Navy Department, regarding certain organizational changes which have been made in the Navy Department, the authority of certain officers of the Navy Department to sign guarantee authorizations, and setting forth the specimen signature of Lieutenant Douglas R. Fuller, who has been appointed Deputy Chief of the Finance Division.

"There are also enclosed copies of the enclosures with Lieutenant Commander Cook's memorandum. Of those enclosures, we are sending you a photostat of the memorandum from the Assistant Secretary of the Navy to the Chief of the Finance Division, dated September 11, 1945, which contains specimen signatures of Mr. W. John Kenney and Mr. E. P. McGuire; and we have in the Board's files photostats of the directive of the Acting Secretary of the Navy of August 20, 1945, and of the memorandum from the Acting Secretary of the Navy dated August 23, 1945."

Approved unanimously.

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

"At the June 18, 1945, Conference of Presidents, there was a discussion of the adequacy of banking quarters of the Federal Reserve Banks. The general sense of the discussion indicated that the volume of business at the Banks will be considerably larger after the war than it was before and that in many cases additional space will have to be provided to take care of these expanded operations.

"In these circumstances, most of the Federal Reserve Banks are actively laying plans for the erection of new or the alteration of existing head office or branch structures. Some of the Banks have acquired building sites or other property for the purpose of enlarging quarters. Alterations approved by the Board some time ago are under way at two or three offices, and in one case the Board has approved a major alteration and an addition to the present building when labor and material conditions justify beginning construction. The preparation by two of the Banks of preliminary plans and specifications was recently approved by the Board with the understanding that it did not include

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"any commitment as to whether or when approval would be given for the actual construction work.

"The action of the Board in the three instances last referred to was taken in the light of the existing shortages of certain building materials and, in some areas, of construction labor. This situation probably will continue for some time, and it is the view of the Board that, except in case of urgent need, no projects not now under way should be undertaken by the Federal Reserve Banks until it is clear that labor and materials are readily available and the timing of the construction will be in harmony with the transition and postwar building program. However, the Board does believe that it is desirable for the Federal Reserve Banks to proceed with preliminary plans for the provision of such additional space as appears to be necessary on the basis of the probable future volume of Federal Reserve Bank operations, so that construction work can be commenced without delay when conditions permit.

"In this connection, it will be recalled that at the February 28, 1945, meeting of the Presidents and the Board of Governors reference was made to the existing statutory limitation upon the amount that Federal Reserve Banks may spend in erecting branch buildings. At that time it was stated that because of other important legislation before Congress no request should be made for a liberalization or removal of the limitation. The Board is of the opinion that the limitation should be removed and is preparing a draft of bill to that end which it will bring to the attention of the appropriate Congressional committees at the first favorable opportunity."

Approved unanimously.

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

"The Presidents of the Federal Reserve Banks agreed at their meeting on June 22-23, 1942, that appropriate steps should be taken to seek authority from the Secretary of the Treasury to put into circulation the existing stocks of unissued 1928 series Federal Reserve notes as a war emergency measure to conserve labor and material, and on August 20, 1942, the Board advised the Treasury of this action.

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"No formal decision on the matter was made by the Treasury Department, but it was understood informally that the Treasury Department did not look with favor on the issuance of the 1928 notes without taking the matter up with Congress, or at least with the Chairmen of the Banking and Currency Committees of the Senate and House.

"It will be recalled that in December 1935 the Board of Governors and the Federal Reserve Banks acquiesced in the proposal of the Treasury Department to discontinue the issuance of new Federal Reserve notes of the 1928 series as soon as a sufficient stock of the 1934 series was available, and that at the time the Treasury agreed to submit to Congress the question of authorizing an appropriation permitting it to replace the unissued stock of 1928 series notes. In advising the Secretary of the Treasury of the decision of the Board and the Banks, the Board stated that the action would not prejudice the right of the Reserve Banks to resume paying out the 1928 series notes in case the Treasury Department was not authorized by Congress to replace the stock with notes of the 1934 series. In the Board's letter of January 20, 1936, the Board advised the Federal Reserve agents that 'New Federal Reserve notes of the 1928 series now held by you should be retained for the present for possible emergency use.' In 1937 a bill was introduced in Congress providing for the destruction of the 1928 series notes and for their replacement by the Treasury with notes of the 1934 series. Hearings were held by the House Banking and Currency Committee, but the bill was never reported out. Since 1937 the Board has authorized issuance by the agents of some of these notes and the destruction of some to free needed vault space. At the present time there are about \$4,104,000,000 of completed notes on hand, of which \$2,812,000,000 are in Washington and \$1,292,000,000 are in the hands of the Federal Reserve agents. In addition there is a stock of about 682,500 sheets of incomplete face printed notes at the Bureau of Engraving and Printing.

"The Board has recently reviewed this matter and has come to the conclusion that the existing stock of Federal Reserve notes of the 1928 series should be destroyed, since there appears little likelihood that they will ever be used for circulation purposes and destruction of the notes would make available substantial amounts of vault space both at

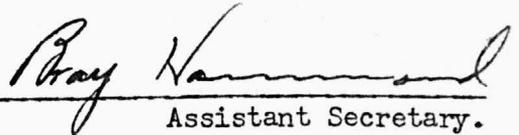
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"the Banks and at the Bureau of Engraving and Printing. Before reaching a final decision, however, the Board would like to have your views on the proposed action. There is enclosed for your information a copy of a letter which will be sent to the Secretary of the Treasury if and when the proposed action is taken."

Approved unanimously.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.