

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE  
FEDERAL ADVISORY COUNCIL

October 6, 1943

At 11:15 A. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, October 6, 1943, the President Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary reported Mr. Harrison was prevented from attending by illness and Mr. Huntington by conflicting engagements.

The President of the Council reported he understood objection had been raised in the Ways and Means Committee of the House of Representatives to the questionnaire which the Securities Exchange Commission had recently asked the banks to answer. He thought it very likely nothing more would be heard of the matter.

The Secretary of the Council read a letter he had received from Mr. Lyman E. Wakefield, dated September 24, 1943, dealing with the problem of possible charges to be made by banks for the certification of E bonds.

Mr. Fleming, in the discussion, reported about a particular case that had aroused the attention of the Treasury. It was decided to adhere to the suggestion of the American Bankers Association which is to the effect that banks be allowed to make a reasonable charge but agree not to make any loans either directly or indirectly on non-marketable bonds, and, furthermore, that banks, before certifying a signature, insist upon the owner of the bond appearing in person.

A lengthy discussion took place regarding renegotiations. It was decided to call the attention of the Board of Governors to the seriousness of the situation especially as it affected smaller concerns whose working capital had been exhausted.

It was decided in reference to the international currency stabilization plans not to submit a memorandum at this time.

It was decided to ask the Board about Regulation Q.

The meeting adjourned at 12:45 P. M.

WALTER LICHTENSTEIN,  
Secretary.

MINUTES OF JOINT CONFERENCE OF THE EXECUTIVE COMMITTEE OF  
THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM

October 6, 1943

At 2:30 P. M., a joint conference of the Executive Committee of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C., on Wednesday, October 6, 1943.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Ernest G. Draper, and Rudolph M. Evans; also Messrs. Lawrence Clayton, Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors and Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel and J. P. Dreibelbis, General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; William B. Pollard, Assistant Chief, Division of Examinations; Edward L. Smead, Chief, Division of Bank Operations.

Present: Members of the Executive Committee of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The President of the Council discussed the SEC questionnaire and pointed out the SEC never had been given any authority to send out a questionnaire to the banks.

A discussion took place in respect to the redemption of E bonds and the desirability of the Treasury countenancing a charge of twenty-five to fifty cents for certifying and sending in for redemption of E bonds.

Governor McKee explained the difficulties of the Treasury in that the Treasury is under obligation to holders of bonds that, whenever redeemed, the holder would receive at least as much for the bond as he had originally paid for it.

The President of the Council discussed the problem of loans to war industries, especially in connection with renegotiation and termination. He stated that there was much objection to the VT loans because the old step-ladder clause of the V loans had been eliminated. There was danger that both industry and banks might suffer heavy losses, especially if the proposal of the Comptroller General were carried out, requiring a complete audit of any claim before money could be paid out by the Government.

Governor McKee stated he thought legislation would be enacted which would relieve the Comptroller General of his responsibility in these matters, and he thought satisfactory arrangements would be made for making partial payment of claims arising under cancelled contracts and provision for paying interest on that part of a claim which was not settled immediately.

The question of Regulation Q was raised, and the Vice Chairman of the Board of Governors stated that any further steps to be taken must be the responsibility of the Comptroller of the Currency and certain other of the supervising authorities.

A discussion took place in respect to the international exchange stabilization plans. Members of the Board of Governors stated nothing had been decided and that all matters were still subject to discussion by the experts.

The meeting adjourned at 3:40 P. M.

WALTER LICHTENSTEIN,  
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily accurate. The transcript should be considered as being strictly for the sole use of the members of the Federal Advisory Council.

W. L.

Secretary's notes on meeting of the Executive Committee of the Federal Advisory Council on October 6, 1943, at 11:15 A. M., in the Conference Room of the Federal Reserve Building.

Messrs. Harrison and Huntington were not able to be present, the former being ill and the latter having a conflicting engagement. Mr. Kurtz' train was delayed so he did not arrive until noon.

BROWN reported that he understood objection had been raised by the Ways and Means Committee of the House of Representatives to the questionnaire which the Securities Exchange Commission had recently asked the banks to fill out. He thought very likely nothing more would be heard of the matter.

The SECRETARY read a letter he had received from Mr. Wakefield, dated September 24, dealing with the problem of possible charges to be made by banks for the certification of E bonds.

FLEMING reported about the case of a bank in Edwardsville, Illinois, which had been accused of conspiring with a magistrate in the city to charge holders of bonds an excessive fee for certifying bonds. It would appear that the bank is innocent but the situation has aroused the Treasury. The Clearing House in New Jersey voted to impose a charge of \$1.00 and some places were charging \$2.00. The Treasury has objected to these charges. At the recent Convention of the American Bankers Association it was agreed to ask the officers of the association to call upon the Undersecretary of the Treasury and see whether it would not be possible to reach an agreement that a very small charge might be made by banks with the consent of the Treasury for certifying signatures on E bonds. This fee might be similar to the usual notarial fee and amount to perhaps twenty-five or fifty cents.

SPENCER believes the situation would be helped if business concerns would inform employees that it would not be regarded as a black mark against their record if they asked the officials of the company to certify signatures of their employees to the banks.

BROWN suggested asking the Federal Reserve Board to support the efforts of the A. B. A. for the imposition of a small charge.

FLEMING stated the recommendation of the A. B. A. was to the effect that banks be allowed to make a reasonable charge and that banks agree not to make loans either directly or indirectly on non-marketable bonds and that banks insist that before certifying the signature the owner of the bond appear in person

BROWN said the situation in regard to renegotiations was becoming serious. Small concerns had expanded their business in many cases enormously and working capital had all gone into fixed assets. On the other hand, the Services were insisting that local boards pay no attention to tentative balance sheets drawn up to show the situation of a company after renegotiation and taxes. The result is many smaller concerns find their working capital is in the red.

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It was agreed by all present not to submit a memorandum on the Keynes and White plans at present. Mr. Harrison had telephoned the Secretary of the Council in the morning stating it was his view a memorandum at this time would not be advisable.

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KURTZ agreed the matter of charges for certifying E bonds should be left to the A. B. A. to handle.

FLEMING believes as long as the question has been raised by a member of the Council it would be well to feel out the Board.

BROWN continues his discussion of the problems raised by the renegotiation procedure. The trouble is not with the local boards but with the officials in Washington. He feels the whole situation ought to be discussed with the Board.

SPENCER says many good banks are going to find their assets frozen by having made loans to war industries which are not able to liquidate the loans owing to long delay on the part of the government in paying claims.

KURTZ agrees the V. T. loans are unsatisfactory except in those cases where a borrower is in a very strong financial position.

FLEMING suggests asking about Regulation Q.

The meeting adjourned at 12:45 P. M.

On October 6, 1943, at 2:30 P. M., a joint meeting of the Executive Committee of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Besides the members of the Executive Committee and its secretary, previously listed, the following were present from the Board:

Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Ernest G. Draper, and R. M. Evans; also Lawrence Clayton, Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors and Liston P. Bethea and S. R. Carpenter Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel and J. P. Dreibelbis, General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; William B. Pollard, Assistant Chief, Division of Examinations; Edward L. Smead, Chief, Division of Bank Operations.

BROWN discusses the SEC questionnaire and refers to a letter which Mr. Huntington had received from a Senator showing that the SEC had no authority to send out the questionnaire to banks.

BROWN. Some banks are worried about the redemption of E bonds and wish to have authorization from the Treasury to charge twenty-five to fifty cents for certifying and sending in for redemption E bonds.

FLEMING points out the whole question arose as a result of the Edwardsville, Illinois, case. He believes the secret service people went to unnecessary extremes though unquestionably the affair did not look well on the surface. It was the feeling that the A. B. A. should work out some agreement with the Treasury about a small charge. The A. B. A. would send out a bulletin pointing out the need of the personal appearance of the owner of a bond and also advise banks not to make any loans based on non-marketable securities.

BROWN. The matter is becoming increasingly burdensome especially in the cases of banks having many branches. Due to the large demands made for funds people more and more often sell bonds after having held them sixty days. They are afraid to go for identification to their plant managers because it is felt it might result in a black mark against their record.

MCKEE says he has talked over the matter with Mr. Bell, Undersecretary of the Treasury. The difficulty is that even a small charge would be equivalent to the interest for a year or two on such a bond and the Treasury feels it has made a commitment to the people to pay them a certain interest which would disappear if a charge were imposed. Probably after the public drives are over the Treasury may feel more sympathetic.

FLEMING points out these small bonds are causing the government such expense that it is a question whether their sale is worth while. The A. B. A. has left the matter in the hands of its officials.

MCKEE reads a letter from Mr. D. W. Bell in which he raises objections to charges to be made by banks. Mr. Bell states the only out-of-pocket expense the banks have is for possible postal charges. If there is to be a charge, the Treasury ought to pay for it, so the holder of the bond can get at least as much as he paid for the bond.

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BROWN. Brown discusses the problem of loans to war industries, especially in connection with renegotiation and termination. He points out many concerns are doing from ten to fifty times their normal business and their capital has become brick and mortar. Both the Navy and War departments seem to fail to realize the fact that liquid capital has disappeared. Local boards have been told not to consider balance sheets after renegotiation. Some concerns are refusing to take more war orders and are threatening to sell machinery while there is still a market for such second hand machinery. There is much objection to the V. T. loans because the old stepladder clause of the V loans has been eliminated. There is danger that banks may suffer very great losses. Steps should be taken that these losses do not become too large and banks should not be expected to assume unfair risks. The whole situation is a serious threat to the future solvency of many banks. Finally, the Comptroller General has written a letter demanding complete audit of any claims before money is finally paid over. This would mean that money would be tied up in frozen loans for years to come.

MCKEE says it looks as if legislation is being drawn which may relieve the Comptroller General of his responsibility in these matters. Producers are to be reimbursed by paying them interest from the time of cancellation until settlement is made, the rate to be limited to 2½%. Until final settlement, banks are to be guaranteed. Producers are to determine their claims as soon as possible after cancellation and a partial payment of these claims is to be made immediately. If the producer needs the full amount immediately, he can use the guaranty to obtain a loan from his bank. After the Armed Services have decided what the claim should be they may tender payment without prejudicing the claimant in case the amount offered by the Services is less than the full claim. If it is later determined the producer was entitled to more than he received he will receive interest on the difference. The difficulty in the situation is that Congress is being asked to by-pass its own officer, namely, the Comptroller General.

DRAPER. The War Department is considering some scheme by which it may be able to pay up, at least in part, a claim of a small sub-contractor and then offset this payment in the settlement with the prime-contractor.

MCKEE says the government may, of course, fix the time limit within which a case may be reopened. He also feels it most important that the small fellow be taken care of by some method of government buying up claims of sub-contractors. At present, the official position of the Armed Services is still that they will deal only with prime contractors.

BROWN points out that the officials in Washington are much more hard-boiled than those in the field. Pressure is being tried by people refusing to take more contracts and threatening to sell machinery. In such cases the

government has threatened to seize plants though it may be doubted if the government would really carry out this threat. The situation is the most important credit situation confronting the banks and the country as a whole.

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BROWN asks what is being done about Regulation Q.

RANSOM says the next move is not up to the Board. Many questions are being asked and the Board is preparing an answer.

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BROWN. The Executive Committee would like to know what the Treasury is doing about the White plan. It is understood the Secretary of the Treasury appeared before some committee of Congress in an executive session and evidently suggested modifications. The Executive Committee of the Council feels the time is not ripe for it to take a public position.

RANSOM says his understanding is the experts are still working on the plan and a definite policy has not been determined.

SZYMCZAK says that Keynes and his staff are still in Washington; apparently discussion is still going on and undoubtedly the plans are changing.

BROWN says the opposition to the fundamental principles underlying both the Keynes and White plans is so great the Council feels it better to wait until a final plan is really adopted by the Treasury. A plan cannot go into effect unless the country supports it and he feels opposition is growing. He is very curious to know what the Treasury is doing.

RANSOM says he doesn't know.

SZYMCZAK states the Federal Reserve Board has been asked to cancel a meeting to be held in Richmond on October 13 and 14 which was to be similar to the meeting held in Chicago on August 26. He cannot reveal the reasons for cancellation. Another meeting is scheduled to be held in Boston and he believes this is to be held. He insists the cancellation does not relate to the plans.

MORRILL says both Richmond and Boston meetings have been cancelled.

Meeting adjourned at 3:40 P. M.