

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

January 5, 1944

At 11:10 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, January 5, 1944, the President, Mr. Brown, in the Chair.

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

The President of the Council discussed a bill dealing with branch and group banking which he had some reason to believe might be introduced in the Congress.

There was some discussion in reference to the publication of the resolution of the Executive Committee of December 7, 1943, dealing with the loans to be made by the Smaller War Plants Corporation. It was decided to postpone a decision until the meeting of the full Council in February.

It was decided to inquire as to the situation in reference to Regulation Q.

The meeting adjourned at 11:25 A. 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

January 5, 1944

At 11:30 A. 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.

Present: Members of the Board of Governors of the Federal Reserve System: Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John L. McKee, Ernest G. Draper, and R. M. Evans; also Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; George B. Vest, Assistant General Attorney; Leo H. Paulger, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations, and Carl E. Parry, Director, Division of Security Loans.

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

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

The President of the Council asked about developments in reference to Regulation Q and the hearings that have taken place before the Banking and Currency Committee of the House of Representatives.

Governor Ransom gave a lengthy statement of the present situation.

The President of the Council asked about a bill dealing with group and branch banking which he understood had been drafted.

Governor Ransom asked that the Council postpone its request for a copy of this draft until the February meeting of the full Council.

The President of the Council stated, the Executive Committee would refer to the February meeting of the full Council, the question as to the desirability of publishing the resolution of the Executive Committee of December 7 which dealt with loans to be made by the Smaller War Plants Corporation.

The meeting adjourned at 1:15 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 January 5, 1944, at 11:10 A. M., in the Conference Room of the Federal Reserve Building.

Mr. Harrison's secretary had telephoned that Mr. Harrison was in bed with an attack of influenza, and Messrs. Spencer and Huntington had notified the Secretary previously that they would be unable to be present at this meeting of the Executive Committee. Consequently, the only ones present were Messrs. Brown, Kurtz, Fleming, and Walter Lichtenstein, Secretary.

BROWN spoke of a bill which he understood had been prepared by the Board of Governors to deal with branch and group banking. He understood that the draft of this bill had been handed in confidence to some of the other government agencies concerned. So far the bill had not been introduced into Congress.

There was some discussion in reference to the publication of the resolution of the Executive Committee dealing with the loans to be made by the Smaller War Plants Corporation. It was decided to postpone a decision until the meeting of the Council in February.

It was decided to inquire as to the situation in reference to Regulation Q.

The meeting was adjourned at 11:25 A. M.

NOTE: On January 5, 1944, at 11:30 A. 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 Ransom; Governors Szymczak, McKee, Draper, and Evans; also, Messrs. Clayton, Thurston, Morrill, Bethes, Carpenter, Wyatt, Vest, Paulger, Smead, and Parry.

It should be noted Governor Szymczak joined the meeting only at 12:10 P. M.

BROWN asked about the developments in reference to Regulation Q. and the hearings that had taken place before the Banking and Currency Committee of the House of Representatives.

RANSOM stated that Congressman Brent Spence, of Kentucky, had asked him at the end of December whether some representative of the Board would be willing to appear before the Committee and explain the situation in reference to Regulation Q. As a result, hearings were held which lasted five days and at which in addition to Mr. Ransom, himself, Messrs. McKee and Dreibelbis of the Board appeared. The meeting was probably brought about by Paul Brown, of Georgia, after he and other Congressmen had been hearing from their constituents. Brown had discovered that in 1937 there had been some sort of an agreement made that Congress would be given thirty days to work out some plan before the Board of Governors took steps to enforce Regulation Q. In the seven years that had passed since then Congress had not done anything. In these hearings Ransom had stated there were three possibilities: 1. Do nothing; 2. Repeal the law, to which he was opposed; 3. Clarify the law. A few large banks had notified their correspondents they would make effective the regulation on January 1, 1944, and, as a result, it had come to be believed in some quarters that the enforcement of the law was to start on January 1, 1944. There were two men on the Committee who seemed to have a full grasp of the problem, namely, Wright Patman, of Texas, and Fred L. Crawford, of Michigan. Sensible questions were asked by Jessie Sumner, of Illinois. If a vote had been taken at the time of the hearings, the majority of the Committee would have been opposed to the position taken by the Board. Leo Crowley read a statement prepared by his legal adviser which supported the position of the Board but, on December 6, 1943, the F. D. I. C. issued a ruling that absorption of charges by banks for non-member banks was not equivalent to the payment of interest. At the moment the Committee on Banking and Currency of the House of Representatives is changing secretaries with the result that the secretary going out is not interested in having a correct record of the proceedings and so there has been some difficulty in having a proper record made. In the meantime, many groups of banks all

over the country have agreed to obey the law. Louisville is the most notable example of a city not willing to conform. Ransom feels progress has been made and the Board will continue to enforce the law as cases come before it. A southern banker has suggested the law be amended so as not to apply on inter-bank deposits. Ransom cited the case of a bank the deposits of which had increased in the course of a few months from \$800,000 to \$7,000,000 practically all of which were in bank deposits. It had attained this result by advertising freely that it stood ready to absorb all exchange charges. Meanwhile, its capital remained at only \$100,000. Hearings are to be resumed after the recess, and Ransom thinks they may last two to three weeks. Representatives of bankers' associations will be called as witnesses and Ransom was asked to put into the record the names of bankers who wanted the law enforced. He is also prepared to file the record of the Federal Advisory Council and he handed the Secretary of the Council a copy of the record of the Council. Crowley, according to Ransom, took the position that if the Board ruled absorption of exchange taxes is equivalent to the payment of interest on demand deposits then the Board would also have to rule that absorption of any service charges which a bank sometimes makes would also be equivalent to the payment of interest. Ransom feels there is a sharp distinction for in the former case a bank pays out something in behalf of a customer while in the latter case a bank merely waives its own charge. To put it in another way: in one case a bank pays out and in the other it collects.

(It is at this point that Governor Szymczak joined the meeting.)

RANSOM stated that he might ask Mr. Brown to testify as to the position of the Federal Advisory Council.

BROWN says he personally does not agree with the law forbidding payment of interest on demand deposits but as long as the law has been passed it must be enforced.

RANSOM says that if Congress wants to repeal the law it ought to do so on its own merits.

MCKEE stated most members of the Congressional Committee did not seem much interested in the problem.

BROWN asked if the Board was going ahead with its present procedure and was answered in the affirmative.

\* \* \* \*

BROWN raised the question of the draft of a bill dealing with group and branch banking which he understands the Board has had prepared.

MCKEE stated a draft of a bill has not been circulated but merely sent to two supervising agencies. Furthermore, the bill does not touch on the question of branch banking at all but deals only with holding companies. In answer to a question by Brown, McKee refused to say whether the Board as a whole is in favor of the bill though he himself, i. e., McKee, is satisfied with it.

RANSOM says the proposed bill has not been cleared by the Bureau of the Budget and therefore ought not to be circulated outside of government agencies concerned with it. It hasn't reached the point where it can be said to be in the legislative mill. He said if the Council makes a formal request for a copy of the draft of the proposed bill, he would prefer to have the question passed on by the board.

FLSMING says he does not wish to have a repetition of the situation where a statutory body like the Council would be left in ignorance of proposed legislation which vitally concerns it.

MCKEE says the bill would provide there should be no expansion of a holding company without a specific permit.

BROWN refers to a preamble which he understands is embodied in the draft of the bill which states that banks are engaged in interstate commerce. This would have a direct bearing on the question as to how far banks come under such acts as the Federal Wage and Hour law.

MCKEE questioned whether the matter of interstate commerce is involved.

BROWN said that at the meeting of the full Council in February he will propose that the Council make a formal request of the Board for a copy of the draft of the bill.

\* \* \* \*

#### SMALLER WAR PLANTS CORPORATION LOANS

BROWN says the answer of the Smaller War Plants Corporation to the resolution of the Council was quite inadequate. Actually, the statements in the resolution were taken verbatim from the published circulars of the corporation. Furthermore, he would like to point out that other government corporations do not have any hesitation in charging varying rates of interest in accordance with credit risks involved. He said the question of publication of the Council's resolution would be postponed until the Council as a whole had an opportunity to consider the matter.

DRAPER agrees with Brown that the Corporation's answer was not a satisfactory reply.

The meeting adjourned at 1:15 P. M.