A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 3, 1940, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
         Mr. Szymczak
         Mr. McKee
         Mr. Davis
         Mr. Draper

         Mr. Morrill, Secretary
         Mr. Carpenter, Assistant Secretary
         Mr. Clayton, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 1, 1940, were approved unanimously.

Letter to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of September 28, the Board approves the designation of Charles Gore as a special assistant examiner, with the understanding, of course, that he will not be transferred permanently to examining work without the Board's approval."

Approved unanimously.

Letter to Mr. C. B. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of June 17 stating that it is the view of your office that the temporary loan
"notes issued by the various local housing authorities are in the nature of loans rather than securities.

"In view of an inquiry on this subject received from one of the Reserve Banks and of the effect on weekly condition reports of member banks in leading cities, we have drafted the attached letter to the Presidents of all Federal Reserve Banks. The proposed letter, it will be noted, contemplates that the Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation will issue instructions in connection with the next request for call reports as to how such temporary loan notes issued by, and deposits of, local public housing authorities should be reflected in condition reports. It will be appreciated if you will advise the Board whether or not you would be agreeable to advising national banks in the manner and to the effect indicated by our proposed letter to the Federal Reserve Banks."

Approved unanimously, together with a similar letter to Mr. Donald S. Thompson, Chief, Division of Research and Statistics, Federal Deposit Insurance Corporation, relating to advice to insured nonmember banks. The draft of letter to the Federal Reserve Banks referred to in the letters to Messrs. Upham and Thompson, read as follows:

"A question has been raised as to the proper classification in bank condition reports of temporary loan notes issued by, and deposits standing to the credit of, local public housing authorities engaged in the development of local low-rent housing projects in cooperation with the United States Housing Authority.

"As you know, the temporary loan notes above referred to are issued under a plan whereby the United States Housing Authority makes available to the local housing authority, on a date three days prior to the maturity of the notes, funds equal to the principal thereof and the interest thereon to maturity. The notes of the various local housing authorities are sold on a bid basis, and it is understood that the
"larger part of the total amount now outstanding was purchased by a syndicate headed by a New York bank which holds the temporary loan notes and has issued participation certificates to the other participating banks. You are advised that it is the view of the Comptroller of the Currency that these temporary loan notes are not the usual type of obligations embraced within the term 'investment securities' as defined in Section 5136 U.S.R.S. but are in the nature of loans. Accordingly, such notes should be reported as 'All other loans', item 8 in Schedule A of call reports of State bank members, form F.R. 105, and 1-g in weekly condition reports of member banks in leading cities, F.R. 416. They should also, of course, be reported as loans in reports of examination.

"The local housing authorities above referred to appear to be 'political subdivisions' within the meaning of that term contained in the instructions for the preparation of reports of condition by State bank members, form F.R. 105a, pages 19 and 20. Accordingly, deposits of such local housing authorities should be reported as 'Deposits of States and political subdivisions', item 16 of form F.R. 105, and against item 5(c) or 6(c) of weekly condition reports, form F.R. 416, depending upon whether the funds are demand deposits or time deposits, respectively.

"It is understood that the amount of short-term notes of local housing authorities now outstanding is over $200,000,000, also that some banks have been reporting the obligations as loans and others as securities. Accordingly, it is suggested that weekly reporting member banks be now advised how to report such obligations in future weekly reports. Please also advise each such bank that, if it has heretofore reported any substantial amount of such temporary loan notes as securities rather than as loans, it should indicate in its next weekly report the amount of such temporary loan notes now transferred from securities to loans. This information should be included in your transcript of the weekly reports so that the Board may be informed, before the weekly press statement is issued, of the effect on published statistics of any change in the method of reporting.

"It is not necessary at this time to advise member banks other than those that submit weekly condition reports how the temporary loan notes issued by, and deposits
of, the local public housing authorities are to be reflected in condition reports. The Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation plan, however, to issue such instructions in connection with the next request for call reports."

Thereupon the meeting adjourned.

Approved:

Vice Chairman.