A meeting of the Board of Governors of the Federal Reserve
System was held in Washington on Friday, March 28, 1941, at 11:10
a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Parry, Chief of the Division of
Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Bonnar Brown, Special Assistant in
the Division of Security Loans

There were presented telegrams to Messrs. Sanford and Hays,
Secretaries of the Federal Reserve Banks of New York and Cleveland,
respectively, Mr. Leach, President of the Federal Reserve Bank of
Richmond, Messrs. Dillard, Stewart, and Powell, Secretaries of the
Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respec-
tively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas
City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas,
and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco,
stating that the Board approves the establishment without change by
the Federal Reserve Bank of Dallas on March 22, by the Federal Reserve
Banks of St. Louis and San Francisco on March 25, and by the Federal
Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis,
St. Louis, and Kansas City on March 27, 1941, of the rates of discount
and purchase in their existing schedules. Approved unanimously.

There was then presented a memorandum dated March 14, 1941, from Mr. Parry, referring to the studies which had been undertaken under his direction at the request of the senior staff with respect to selective methods of credit control, particularly control by methods analogous to margin requirements of certain forms of consumer credit, including installment credit, that are widely used in connection with the purchase of consumers durable goods. The memorandum stated that up to the present time the studies had been confined to published material, information available within the Board's organization, and consultation with members of the Board's staff, that, if the proposal was to be perfected, the studies should include consultation with persons outside of the Board's organization including, among others, men connected with the Federal Reserve Banks, other Government agencies, and the National Bureau of Economic Research, and that the staff was prepared to undertake such consultations but felt that it should not do so except by direction of the Board.

In connection with the above matter Mr. Ransom stated that Mr. Donaldson Brown, Vice President of General Motors Corporation, called on him yesterday and stated that he was in Washington for the purpose of discussing with several of the Government agencies some of the problems connected with defense and the general economic situation and that he would like to have suggestions as to where he
could get help in connection with their consideration. He felt, Mr. Ransom said, that there were three major monetary questions to be considered by the interested Government agencies, (1) the advancement of saving by encouraging the investment of private funds in Government securities and discouraging such investments by banks, (2) the imposition of an excise tax which would be designed to derive the maximum amount of revenue without unduly restricting consumer demand, and (3) the possibility of effectively controlling the volume of installment credit. Mr. Ransom said that with respect to the third point Mr. Brown had the feeling that if the volume of national income increased there would inevitably be a shortage in many products, including automobiles, which would precipitate price rises which the manufacturers might not be able to control even though they were able to exercise some control over manufacturing costs, and that he was particularly interested in knowing whether there was any way by which some control could be exercised over the volume of installment credit. Mr. Ransom said that after outlining the authority of the Board with respect to the control of credit in connection with the purchasing and carrying of securities he stated to Mr. Brown that some of the members of the Board's staff had been studying the matter of selective credit control and, upon an indication from Mr. Brown that he would be interested in discussing the problem with members of the staff, arrangements had been made for him to confer with Messrs. Goldenweiser and Parry. At Mr. Ransom's request Mr. Parry reviewed briefly the discussion with
Mr. Brown, during which the latter had said he had discussed the matter with Mr. Knudsen, Director General of the Office of Production Management, and that he (Mr. Brown) was planning to return to Washington on Thursday, April 3, 1941, for a further discussion and would call upon representatives of the Board at that time.

Mr. Goldenweiser stated that Mr. Brown had indicated it would help him materially in his discussions if he could say that the Board of Governors was in favor of some method of installment credit control. It was agreed unanimously that the Board had not studied the matter sufficiently to enable it to take a position at this time.

During a further discussion, Mr. Parry stated that he was satisfied from the study that had been made that a method of control which would be analogous to the control of margins on security purchases would be practicable in the field of installment credit, that changes in the demand for durable goods are an important factor in the business cycle, that installment credit has an important effect on consumer demand, and that the extent to which control of the volume of installment credit could be exercised is substantial. It was also felt, Mr. Parry said, that the controls should be applied not only to automobiles, refrigerators, furnaces and other items in connection with which there is a wide use of installment credit but that it should eventually be applied in the field of residential mortgages. Mr. Parry repeated the statement contained in his memorandum that the staff had
gone as far as it could without consulting with individuals in other organizations and that such consultations were desirable for the purpose of checking the conclusions that had been arrived at.

Mr. Davis moved that the staff be authorized to expand its investigation along the lines suggested in Mr. Parry's memorandum and that Mr. Parry be requested to submit a report on Friday of each week of the progress made in the studies.

Mr. Davis' motion was put by the chair and carried unanimously.

Mr. Ransom stated that he talked with Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, over the telephone this morning in connection with the death of Mr. Parker, President of the Bank, and that Mr. Neely stated that the regular meeting of the board of directors of the Bank would be held in about two weeks and that at that time a committee would be appointed to come to Washington to confer with the Board with respect to the selection of a successor to Mr. Parker.

At this point, Messrs. Goldenweiser, Parry, Dreibelbis, and Brown left the meeting and the action stated with respect to each of the matters hereinafter 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 March 26, 1941, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 27, 1941, were approved and the actions recorded therein were ratified unanimously.
Memorandum dated March 25, 1941, from Mr. Szymczak recommending that Messrs. Morrill, Goldenweiser, Smead, and Carpenter of the Board's staff be designated to attend the Conference of Chairmen of the Federal Reserve Banks to be held at White Sulphur Springs, West Virginia, on April 26-27, 1941. The memorandum also recommended that Mr. Morrill be authorized to designate one person, and two if felt necessary, to go to White Sulphur Springs to do stenographic work during the Conference.

Approved unanimously.

Letter to the board of trustees of the "Lafayette Savings Bank", Lafayette, Indiana, stating that, subject to conditions of membership numbered 1 and 3 (standard condition of membership numbered 3 to be renumbered 2) contained in the Board's Regulation H and the following special conditions, 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 Chicago:

"3. With respect to the payment of deposits and regular dividends thereon, such bank shall be governed by the provisions of the regulations of the Board of Governors of the Federal Reserve System relating to the payment of deposits and interest thereon by member banks, and no special dividends shall be paid except with the permission of the Board of Governors of the Federal Reserve System.

"4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $780.50, as shown in the report of examination of such bank as of January 25, 1941, made by an examiner for the Federal Reserve Bank of Chicago."
Approved unanimously, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Lafayette Savings Bank', Lafayette, Indiana, 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 Trustees 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 Director, Department of Financial Institutions, for the State of Indiana for his information.

"It will be noted that standard condition of membership numbered 2 has not been prescribed. It is felt that the condition is not appropriate for a mutual savings bank.

"It has been noted that the bank's application is on the form applicable to mutual savings banks authorized to purchase stock of a Federal Reserve Bank but that, in his certificate, your counsel indicates that the bank is authorized to make the required deposit in the Federal Reserve Bank but not to purchase stock thereof. It is our understanding that mutual savings banks in Indiana are authorized to purchase Federal Reserve Bank stock but it is suggested that you discuss this matter with your counsel before the bank is admitted.

"It also has been noted that the by-laws of the bank contain a provision that 'the bank reserves the right to require such notice before permitting withdrawal of any deposit as may be provided or allowed by any law, State or Federal, or regulation made pursuant thereto.' It is not clear under this provision that the bank has the right to require not less than 30 days' notice in writing before any withdrawal is made, as required by the definition of the term 'savings deposit' in Regulations Q and D. It is suggested, therefore, that this matter be brought to the bank's attention with a request that this provision of the by-laws and any similar provision contained in the pass books issued by the bank be modified to conform with the requirements of the Board's regulations as soon as this can conveniently be done.

"Referring to condition of membership numbered 3, the Board authorizes your bank, through its President,
"to act in its behalf with respect to requests for permission to pay special dividends. The President may, if he so desires, delegate such authority in writing to the First Vice President or to the Vice President in charge of examinations. The Board desires to be advised regarding action taken in its behalf under this authorization."

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of December 11, 1940, and its enclosures, relating to a request by City Bank Farmers Trust Company, New York, New York, that the Board make a ruling to the following effect:

'If a common trust fund established before December 31, 1937, is operated in all other respects in conformity with Section 17 of Regulation F, a participation therein acquired prior to December 31, 1937, although exceeding $25,000 shall not be deemed a new investment of trust funds in such common trust fund. Such participation may be continued and said fund shall nevertheless be deemed to be a common trust fund maintained in accordance with the provisions of Section 17.'

'If two or more such common trust funds are consolidated, the participations therein shall for the purpose of this ruling be deemed to have been acquired at the date of participation in the original funds.'

This matter subsequently has been the subject of considerable correspondence and numerous conferences between representatives of the bank and members of the Board's staff.

"It appears that the bank is taking steps to consolidate three funds established by it prior to December 31, 1937, and desires to obtain for the consolidated fund the tax exemption which the Internal Revenue Code provides for common trust funds -

' *** maintained *** in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the
"Federal Reserve System pertaining to the collective investment of trust funds by national banks.'

"However, certain trusts will have participations in the consolidated fund in excess of $25,000, because of either a present participation in a single fund exceeding such amount or participations in two or more of the funds which, when combined, will exceed such amount. In view of this fact, the above-quoted ruling is desired because section 17(c)(5) of Regulation F provides:

'No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having an interest in the Common Trust Fund in excess of 10 per cent of the value of the assets of the Common Trust Fund, as determined by the trust investment committee, or the sum of $25,000, whichever is less at the time of investment.'

"In support of the requested ruling, the bank, referring to the foregoing provision of the regulation, contends:

'*** This provision would only seem to forbid such an investment after the Regulation took effect, and we believe that, correctly interpreted, it should be deemed to operate only prospectively.

'Nor do we believe that the consolidation of Funds 1 and A with Fund B would lead to a different conclusion with respect to the thirteen instances above referred to. Here again all the investments of the funds of the separate trusts occurred years ago and, under generally accepted principles of law, the mere consolidation of these funds with Fund B would not result in a new investment of the moneys of the separate trusts.'

"This argument overlooks the fact that prior to December 31, 1937, the Board's rules and regulations did not permit national banks to invest trust funds in participations in common trust funds, subject to a limited exception with respect to small balances which contemplated such investments to no greater extent, at most, than is now provided for in section 17(b) of Regulation F. The amendment to Regulation F which became effective on that
"date was liberalizing in effect, permitting the investment of larger amounts subject to limitations and conditions set forth in section 17(c). In prescribing the $25,000 limitation upon such investments, the Board was not imposing a new prohibition or restricting rights previously possessed by national banks. Accordingly, a national bank could not now be operating a common trust fund with participations exceeding such limitation unless an uncorrected violation of the Board's rules and regulations existed, and this would be true irrespective of whether the participations were acquired by the trusts before or after December 31, 1937. Thus, there is no basis for a ruling that the continuance of such excessive participations acquired before that date is permissible.

"In the light of certain arguments which have been advanced by representatives of the bank, it perhaps should be pointed out that the prohibition which was in effect prior to December 31, 1937, had existed since prior to the date of the establishment of the first of the funds operated by City Bank Farmers Trust Company and that it applied even though collective investment was authorized by the trust investments.

"The Board does not feel that it should grant the alternative request of the bank that Regulation F be amended. It would be anomalous at best to adopt an amendment which, by its terms, would give the Board's approval to investments by national banks prior to December 31, 1937, which could not have been made under the then applicable rules and regulations and could not be made under those now in effect. Moreover, the real purpose of the amendment would be to afford a tax exemption for a type of common trust fund operated by State banks (or, perhaps, City Bank Farmers Trust Company alone) which national banks could not be operating and, thus, it would be an unwarranted attempt by the Board to extend the exemption provided by the Internal Revenue Code beyond the limits prescribed by Congress.

"Please advise City Bank Farmers Trust Company in accordance with the views expressed in this letter."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letters of March 25 and March 11, 1941, with reference to changes in plans for air
"conditioning your head office building, which may increase the estimated cost of the work."

"In the light of the circumstances outlined in your letter of March 11, the Board will interpose no objection to the expenditure of not to exceed $1,372,500 for air conditioning your head office building. This amount is $100,000 in excess of the estimated amount of $1,272,500 referred to in the Board's letter of November 26, 1940."

Approved unanimously.

Thereupon the meeting adjourned.