

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 4, 1941, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Solomon, Assistant Counsel
Mr. Bonnar Brown, Special Assistant in the Division of Security Loans

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, Mr. McCravey, Assistant Vice President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, 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 Banks of Atlanta, Chicago, Kansas City, Dallas, and San Francisco on April 3, 1941, and by the Federal

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Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Wingfield stated that following the amendment by the Board of its Regulation F, Trust Powers of National Banks, to permit the operation of common trust funds composed principally of mortgages, the Mortgage Investment Fund Committee of the Pennsylvania Bankers Association prepared a draft of handbook covering the operation of such funds, and that under date of February 27, 1941, J. Fred Berger, the chairman of the committee, sent copies of the handbook to the Board with the request that, after the draft had been studied by the staff, the committee be given an opportunity to discuss it with representatives of the Board.

Mr. Ransom stated that in a telephone conversation with Mr. Berger yesterday the latter suggested that May 5, 1941, be set as the date for the conference.

It was agreed unanimously that Messrs. Ransom and McKee, with such members of the staff as they might designate, should meet with Mr. Berger and his committee on a date to be determined, and Mr. Wingfield was requested to communicate with Mr. Berger by telephone for the purpose of determining upon a mutually satisfactory date for the conference.

There was then read a memorandum prepared by the senior staff under date of April 4, 1941, as follows:

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"This is in accordance with the Board's request of April 1 that the Senior Staff propose today for discussion a mechanism for credit control of instalment sales, this control to be exercised by the Board.

"Outline of proposal. - The proposal contemplates the issue of an Executive Order by the President forbidding certain financial transactions after _____ 1941, except as authorized by Board regulations or licenses thereunder, and directing the Board to issue the necessary regulation prior to that date. The President is authorized by the Act of October 6, 1917, as amended, to take such action in a period of national emergency and such a period of national emergency has been declared by the President in another connection (September 8, 1939). The financial transactions thus forbidden except as authorized by the Board's regulations) would include transactions by and with banking institutions which 'arise out of' the instalment financing of automobiles, and the Order would be so drawn that it could be readily amended from time to time to cover additional consumers' durable goods.

"The Executive Order would define broadly the financial transactions which are deemed to 'arise out of' the instalment financing of automobiles. It would also define broadly the term 'banking institutions'. As a result, the Board's regulations could cover such instalment financing whether it is done by a bank, a sales finance company, or any other person, such as an automobile dealer, who is engaged in the business of instalment financing. The instrument would be flexible, because the Board could change its requirements from time to time.

"With respect to any extension of credit which is repayable in instalments and is for the purpose of purchasing an automobile, the Board would be empowered in effect to prescribe the minimum down payment, to fix the maximum length of the instalment contract period, and to regulate related matters. The regulations could contain appropriate provisions to prevent circumvention and to provide for necessary exemptions and exceptions. They could also include provisions for the licensing of finance companies, etc., for the making of special or periodic reports, and for the submission when necessary of relevant books and papers. Penalties for violation of the Executive Order or the Board's regulations would be fine or imprisonment

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"as prescribed in the Act of October 6, 1917.

"Statement of Purpose. - A very important part of the Executive Order would be a statement in the preamble concerning the purpose of the Order and the regulations thereunder. This statement of purpose would be carefully formulated with reference to the national defense, facilitating the use of national productive resources therefor, preventing or moderating certain disruptions in the credit system and the price system, and alleviating other undesirable consequences of uncontrolled consumer demand for durable goods."

Mr. Ransom reviewed briefly, for the information of Mr. Davis, the discussion yesterday afternoon with Donaldson Brown, Vice President of General Motors Corporation.

There was general agreement among the members of the Board that there was a strong possibility that some agency of the Federal Government would be given the responsibility of exercising controls in the field of installment credit and that the controls, if created, should be vested in the Federal Reserve System, along with the other powers of credit control which it now holds. It was also stated that the Board did not know the extent to which it was desired for defense purposes to curtail the production of automobiles, and it was suggested that the matter should be discussed with Mr. Knudsen, Director General of the Office of Production Management, for a clarification of this point.

In response to inquiries by members of the Board, members of the staff expressed the opinion that the control of installment credit was feasible and that an effective mechanism could be worked out along the lines suggested in the memorandum set forth above. The question

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was raised as to whether the regulations that might be issued under the authority of an executive order should be made effective simultaneously with the executive order, and the suggestion was made that the regulations should be effective at some subsequent date, or that at least there should be some preliminary announcement, so that the automobile dealers would be prepared to cope with the changed conditions resulting from the institution of controls. In connection with the question of an effective date, Mr. Parry stated that no date earlier than the first of June had been intimated by anyone with whom he had discussed the matter, that his preference would be an executive order in which the President would forbid sub-standard contracts after a fixed date which should be sufficiently in advance to give the industry time to become familiar with the regulations, and that, in any event, the time allowed should not be less than two weeks and preferably a month. He also stated it would be more satisfactory if at least a month's time could be given the staff in which to prepare the regulations, including the necessary consultations.

Further discussion brought out the observation that even if the Office of Production Management should decide that there should be an arbitrary restriction on the production of automobiles, it undoubtedly would be necessary also to institute some kind of credit control to prevent unsound price and credit conditions with respect to the restricted supply of cars that would be available.

During a consideration of the further steps that should be

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taken by the Board in the matter, it was stated that Chairman Eccles would return to Washington during the weekend, and Mr. Szymczak suggested that Mr. Ransom advise the Chairman of the discussions that had taken place during his absence, following which the matter should be discussed with Mr. Knudsen, it being understood that during the interim the staff would continue to work on drafts of an executive order and regulations to be issued by the Board.

During this discussion Mr. Smead left the room.

In connection with the question whether the contemplated controls of installment credit should be applied in fields other than automobiles, it was the consensus of the members present that the controls should be applied a step at a time, but that the executive order and the Board's regulations should be in such form that they could be readily amended from time to time so as to be applied in other fields.

At the conclusion of the discussion, Mr. Szymczak's suggestion was approved unanimously and Mr. Parry was requested to prepare a revision of his memorandum along the lines suggested during the meeting for use in connection with the discussion with Mr. Knudsen.

At this point Messrs. Goldenweiser, Paulger, Parry, Dreibelbis, Wingfield, Solomon, 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:

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Federal Reserve System held on April 3, 1941, were approved unanimously.

Memorandum dated April 1, 1941, from Mr. Carpenter, Assistant Secretary, recommending (1) that Mary Mae Jacobs and Constance Faye Cooley be appointed on a temporary basis for a period of not to exceed six months as junior file clerks in the Office of the Secretary, each with salary at the rate of \$1,260 per annum, effective as of the date upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination, and (2) that the Board approve a draft of letter to the National Archives, attached to the memorandum, transmitting a list of records of the Board recommended for destruction. The memorandum read in part as follows:

"It will be noted that item No. 37 of the list covers duplicate copies of examination reports of State member banks made by Federal Reserve examiners and State Banking Departments for the period from 1914 to 1935, inclusive, and that items Nos. 38 and 39 cover duplicate copies of condition reports and earnings and dividends reports of State member banks for the years 1927 to 1930, inclusive.

"The Board has never destroyed duplicate copies of reports of examination of State member banks received from the Federal Reserve Banks. It has authorized the Federal Reserve Banks to destroy only copies of reports of examination of State member banks made by State Banking Departments for the period of 1934 through January 1937, inclusive, (prior to 1934 during various periods and at various banks the reports made by the Federal Reserve Banks were largely supplemental to the State reports but beginning with 1934 the Reserve Bank examiners' reports have been complete so that the retention thereafter of reports of examination by State Banking Departments was not believed to be necessary). Therefore,

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"copies of all reports of examination of State member banks by State Banking Departments prior to 1934 and reports made by Federal Reserve examiners since the beginning of the Federal Reserve System are available at the Federal Reserve Banks. It is now proposed to request authority from Congress to destroy copies of reports of examination of State member banks received by the Board prior to 1936 with the understanding that we will destroy such reports prior to 1931 and that the reports now at the Federal Reserve Banks will be held at the Banks as long as may prove to be necessary. This procedure is approved by the Division of Examinations.

"The Federal Reserve Banks have been instructed by the Board to retain (1) June call reports of condition of State member banks for the years 1915 to 1925, inclusive, and the June and December reports from 1925 on, and (2) reports of earnings and dividends of State member banks for the years 1916 and 1921, and from 1925 on. Prior to 1938 it was the policy of the Board to retain copies of condition reports and earnings and dividends reports of State member banks received from the Federal Reserve Banks for ten years. Since 1938 no reports have been destroyed so that the reports beginning with 1927 are in the Board's files. It is now proposed to retain these reports for only ten years but before the old reports are destroyed those for the June and December calls will be photographed by the Recordak process so that if at any time in the future information contained in the June and December reports is desired it can be taken from the photographs. This procedure has been approved by the Divisions of the Board's staff interested in these reports.

"There is a considerable amount of other material in the Board's files for which there appears to be no use but which we have hesitated to recommend for destruction because of the possibility of some future interest in it. There is other material, such as statements issued by the Board, which, if the information contained therein could be made available in a more compact form, the material itself could be destroyed. It is proposed to check all of this material and recommend its destruction after it has been photographed.

"The present staff of the files section is not large enough to do the work involved in checking the old files to see that they are in proper order for photographing and destruction or to do the actual photographing

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"work, and it is for that reason that the temporary employment of Miss Jacobs and Miss Cooley is recommended."

Approved unanimously. The letter to the National Archives, referred to in the memorandum, was in the following form:

"There is attached hereto a list, prepared in triplicate in accordance with instructions issued by the National Archives, of records of the Board of Governors of the Federal Reserve System that are not needed in the transactions of the current business of the Board and which have no permanent value or historical interest.

"It will be appreciated if you will have your examiners review the material as promptly as possible in order that it may be included in the next list submitted by you to the Congress of records to be disposed of.

"Some of the records referred to in the attached list are of a confidential nature and inasmuch as the rest of list does not cover a sufficient amount of material to justify its sale as waste paper, it is felt that all of the records should be incinerated in the same manner as useless papers of the Board were destroyed in February 1940."

Letter to the board of trustees of the "Beloit Savings Bank", Beloit, Wisconsin, stating that subject to conditions of membership numbered 1, 3, 4, 5, and 6 (standard conditions of membership numbered 3, 4, 5, and 6 to be renumbered 2, 3, 4, and 5) 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:

- "6. 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

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"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.

- "7. Debentures issued by such bank and outstanding on the date of its admission to membership shall not be retired except with the permission of the Board of Governors of the Federal Reserve System.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$2,475, as shown in the report of examination of such bank as of February 17, 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 'Beloit Savings Bank', Beloit, Wisconsin, 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 Commissioner of Banking for the State of Wisconsin for his information.

"In connection with condition of membership numbered 6, 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. Authorization to act in the Board's behalf in connection with retirements of debentures has already been granted."

Letter to the board of directors of "The Saint Charles Savings Bank", St. Charles, Missouri, stating that, subject to conditions of

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membership numbered 1 to 3, inclusive, 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 St. Louis.

Approved unanimously for transmission through the Federal Reserve Bank of St. Louis.

Letter dated April 3, 1941, to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the recommendation of the Executive Committee of your bank, contained in your letter of March 20 and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to the 'Park Savings Bank', Milwaukee, Wisconsin, to maintain the same reserves against deposits as are required to be maintained by banks located outside of Central Reserve and Reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the member bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Mr. Draper suggested that the Board authorize the payment of the cost of luncheon served to Mr. Robert L. Mehornay, Chief of Defense Contract Service of the Office of Production Management, in the Board's dining room today.

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Frank J. Hanson
Vice Chairman.