

11/5/41 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 5, 1941, at 11:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary

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

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, 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 San Francisco on September 2, by the Federal Reserve Banks of Atlanta, Chicago, Dallas, and San Francisco on September 4, 1941, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated September 3, 1941, from Mr. Parry, Chief of the Division of Security Loans, recommending that Miss Ruth L. Dehn

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be appointed as a stenographer in the Division of Security Loans, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated September 2, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, because of an approaching confinement, Mrs. Melva K. Lischinsky, a clerk-stenographer in the Division of Research and Statistics, be granted leave of absence without pay from November 10, 1941, to January 31, 1942, inclusive, and that during her absence the Board continue to make its contributions to the Retirement System on her behalf with the understanding that she will continue her own contributions during the period.

Approved unanimously.

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

"In connection with the arrangements between your Bank and the Federal Reserve Bank of Minneapolis to exchange the services of Messrs. Austin and Hodgson, advice has been received from Mr. Swanson at Minneapolis to the effect that the examination in which Mr. Austin is to participate is scheduled for the latter part of this month, and the examination of the bank at Houston in which Mr. Hodgson is to participate is scheduled for some time in November.

"The Board approves the designation of Thomas H. Hodgson as an Examiner for the Federal Reserve Bank of

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"Dallas for the forthcoming examination of the Guardian Trust Company of Houston, Houston, Texas.

"Attached is a copy of a letter to Mr. Swanson at Minneapolis approving the designation of Mr. Austin as an Examiner for the Federal Reserve Bank of Minneapolis for the coming examination of the Union Bank and Trust Company, Helena, Montana."

Approved unanimously, together with a letter to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of September 2 to Mr. Paulger regarding the arrangements between your Bank and the Federal Reserve Bank of Dallas to exchange the services of Messrs. Hodgson and Austin for the purpose of participating in the examination of one bank in each District. Accordingly, the Board approves the designation of John F. Austin as an Examiner for the Federal Reserve Bank of Minneapolis for the forthcoming examination of the Union Bank and Trust Company, Helena, Montana.

"Attached is a copy of a letter to Mr. Evans at Dallas, approving the designation of Mr. Hodgson as an Examiner for the Federal Reserve Bank of Dallas for the forthcoming examination of the Guardian Trust Company of Houston, Houston, Texas."

Letter to the board of directors of the "Citizens State Bank", Waterloo, Indiana, stating that, subject to conditions of membership numbered 1 to 3 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 Chicago.

The letter also contained the following special comments:

"It has been noted that the bank has outstanding common capital stock of \$25,000, which is in excess of the

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"figure at which the stock is shown on the books of the bank. In this connection the Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock to be shown at its par value. Such adjustments may be effected through conservation of earnings of the bank, through reduction of its outstanding common capital stock, if and when such a reduction may be accomplished under the applicable provisions of State law, or through such other means as may be within the power of the bank.

"It appears that the bank possesses authority to exercise fiduciary powers and has from time to time exercised such powers although it was not doing so when it filed its application and was examined for membership. Attention is invited to the fact that if the bank desires to exercise any powers, including fiduciary powers, not actually exercised at the time of admission to membership, it will be necessary under condition of membership number 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously for transmission through the Federal Reserve Bank of Chicago.

Letter to the Presidents of all of the Federal Reserve Banks reading as follows:

"The Board has been advised that the Insurance Committee, appointed by the Chairman of the Presidents' Conference at the Board's request, has filed a report under date of August 23, 1941, recommending a definite plan under which insurance now carried against certain losses may be discontinued and such losses absorbed by the Federal Reserve Banks under contractual agreements entered into with each other and that copies of this report have been furnished to the Presidents of all Federal Reserve Banks.

"A comparatively simple plan appears to have been worked out by the Committee, the adoption of which, the Committee estimates, would result in average savings to

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"the twelve Federal Reserve Banks of at least \$250,000 per annum.

"In order that the report may be acted upon as soon as practicable, the Board has asked me to advise the President of each Federal Reserve Bank that it hopes he will review the Committee's report in advance of the next meeting of the Presidents' Conference so that the plan may be fully considered at that time.

"Such a procedure will permit the President of each Bank to learn the views of the other Banks before submitting the report to his Directors for formal action."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-26. 'First lien' referred to in section 6(a) of Regulation W means any first lien created by agreement of the parties at the time of or as an incident to the extension of credit, including first mortgages, first deeds of trust, and the like. It does not, however, include a lien arising by operation of law, independently of such an agreement, under statutes such as those designed to protect furnishers of labor or material. A lien of the kind existing in some jurisdictions which is sometimes referred to as a mechanic's lien but which is a first lien created by agreement of the parties, and not by operation of law under a statute, is a 'first lien' under section 6(a)."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-27. Extension of credit 'secured by a bona fide first lien on improved real estate duly recorded' is exempted by section 6(a) of Regulation W even though the purpose of the credit is to purchase a listed article. For example, if the credit is secured by such a first lien it is exempt even though part of the credit is for the purpose of purchasing a furnace to be installed in the mortgaged property and even though the lien does not extend to the furnace. Conversely, if a portion of the credit involved in the transaction is not secured by the lien, the exemption does not apply to that portion of the credit."

Approved unanimously.

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Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-28. Although W-19 dealt generally with renewals and revisions made during September and October, questions have been received regarding renewals or revisions made on or after November 1, of credits which were originally extended before September 1.

"The controlling principle in such cases is that credit originally extended before September 1 may be renewed or revised once at any time on or after September 1 without the statement of necessity referred to in section 8(a) and on any terms which the Registrant would have granted in good faith in the absence of the regulation. This is the case whether such first renewal or revision of a pre-September credit occurs before November 1 (as discussed in W-19) or after November 1. When a pre-September credit has been once renewed or revised on or after September 1, whether such renewal or revision occurs before or after November 1, any subsequent renewal or revision is subject to the same requirements which would apply if the credit being renewed or revised had originally been extended on or after September 1. As indicated in W-19, the consolidation of a pre-September credit with a new credit has the same effect, for the purposes of this question, as a renewal or revision of the pre-September credit."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-29. The question has been asked whether, in view of W-5, Registrant who is purchaser or pledgee of obligation or claim subject to Regulation is required by section 3(a)(2)(B) to receive a copy of the statement of the transaction required by section 4(f). Answer is that purchaser or pledgee is not required to receive this statement. Section 4(f) provides that there shall be a written instrument or record of the transaction which shall contain certain information and of which a copy shall be given to the obligor, but this instrument or record is not necessarily the same document as the 'obligation or claim' which is discounted or accepted by the Registrant under section 3(a)(2)(B)."

Approved unanimously.

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Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-30. An inquiry which may be stated as follows has been received under Regulation W.

"A mortgagee, who has made a loan of \$2,000 secured by a first mortgage, advances \$400 more to the same borrower but instead of combining the two transactions into one debt secured by one mortgage, the lender takes another note and a second mortgage. Can the latter mortgage be regarded as a 'first lien' within the meaning of section 6(a)?

"The Board is of the opinion that the second mortgage securing the additional loan of \$400 may not be regarded as a 'first lien' within the meaning of section 6(a)."

Approved unanimously.

Letter to the Presidents of all of the Federal Reserve Banks reading as follows:

"Subsection 6(e)(2) of Regulation W excepts from the provisions of the regulation any extension of credit to remodel or rehabilitate any dwelling or residence which the Defense Housing Coordinator, or his authorized agent, shall designate as being for 'defense housing' as defined by the Coordinator. The subsection also states that information regarding the procedure for obtaining such a designation would be available through any Federal Reserve Bank or branch.

"After consultation with members of the Board's staff, the Division of Defense Housing Coordination has prepared a memorandum of the procedure to be followed to obtain such a designation, together with (1) a form (Form No. OEM-306) of application for designation of remodeling or rehabilitation as defense housing, and (2) a form (Form No. OEM-305) for use in submitting information regarding material and equipment entering into defense housing remodeling and rehabilitation when a priority status is being sought. Five copies of each of these documents are enclosed with this letter and 150 additional copies are being sent under separate cover to your head office and 25 copies to each of your branches (if any).

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"When advising the Defense Housing Coordinator that the memorandum and accompanying forms were agreeable to the Board of Governors, it was stated that the Board and the Federal Reserve Banks and their branches would be glad to be of all possible assistance in facilitating public information with respect to the procedure. It is suggested, therefore, that you take such steps as appear to be appropriate to make known to interested persons in your district that the documents are now available and that you let us know as much in advance as possible when additional copies are needed."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley  
Secretary.

Approved: [Signature]  
Vice Chairman.