

7/5/41 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 6, 1941, at 11:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

Telegram to Mr. Sanford, Secretary of the Federal Reserve Bank of New York, stating that the Board approves the establishment without change by the Federal Reserve Bank of New York on September 4, 1941, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"During the latter part of 1938 and early part of 1939 the Board gave considerable thought to the difficulties experienced in passing upon changes in officers' salaries at all Federal Reserve Banks and Branches within a comparatively short period at the beginning of the year, and in 1939 advised the Federal Reserve Banks that it had decided to review the salaries of officers in the months of March, April, and May of each year, such salaries to become effective on the first of the following month.

"It is believed that the revised procedure has been mutually advantageous to the Reserve Banks and the Board of Governors, particularly in relieving some of the pressure around the end of each year. There appears to be some uncertainty on the part of the Reserve Banks, however, as to just what information is desired by the Board in connection with officers' salaries under the revised

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"procedure and when it should be submitted. Accordingly, it is requested that the following data be furnished the Board as early as practicable in March, April, or May of each year:

1. A list of all officers as of March 1, April 1, or May 1 (depending on whether their salaries are reviewed by the Board in March, April, or May) showing in the case of each officer (a) name; (b) title; (c) principal departments supervised (Form A classification); (d) present annual salary; and (e) annual salary for the year beginning on the first of the following month as fixed by your board of directors subject to the approval of the Board of Governors. If the Bank's counsel is not an officer of the Bank, his annual retainer fee should be shown separately.

2. In the case of each officer for whom an increase in salary is recommended a statement of changes in his duties and responsibilities since his last increase in salary and of any other factors that have a material bearing on the proposed increase.

3. A copy of the current organization chart of the Reserve Bank including Branches, if any.

"From time to time the Reserve Banks have found it desirable, because of resignations or otherwise, to make certain changes in positions of officers during the year. Since the Board's approval of salary for a given officer is contingent upon his occupying a specific position, it is requested that whenever an officer is assigned to another position (change in title) his salary be fixed by the board of directors for the new position subject to the approval of the Board of Governors. The Board would also appreciate receiving current advice of any major changes in the duties of an officer which do not involve a change in either title or salary.

"You may wish to review the provisions of the by-laws of the Bank that relate to the election or appointment of officers and the fixing of their salaries and consider whether any changes appear necessary or desirable as a result of the changed procedure.

"This letter supplements the Board's letter of June 16, 1939, and supersedes and cancels all previous letters,

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"instructions, etc. relating to the submission of officers' salaries to the Board, except that it should not be construed to change in any way the present practice of taking up informally in advance with the appropriate member of the Board any important adjustments contemplated in official salaries."

Approved unanimously.

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

"This refers to the Board's telegram of today, copy attached, requesting that you have computed, in the case of each member bank, the percentage ratio of its demand deposits, both including and excluding interbank deposits, on June 30, 1941 to the corresponding figures on June 30, 1938.

"A supply of forms (tables 1 and 2) for use in making two frequency distributions of the banks is enclosed. As indicated in the Board's telegram, the frequency distributions should be mailed or telegraphed in time to reach the Board's offices by Monday morning, September 15. If the figures are telegraphed the code words and letters provided for the purpose should be used to designate the banks in each group. For example, in table 1, the number of reserve city banks with demand deposits under \$10,000,000 may be wired simply as 'Jarl A 15, B 1, D 3, E 5, G 4, I 2'. Code words and letter designations for groups in which there are no banks should, of course, be omitted.

"It is probable that distributions of the dollar amount of deposits on June 30, 1941, and of the changes in deposits between June 1938 and June 1941, corresponding to tables 1 and 2, i.e., four additional tables, will also be desired later on; if so, you will be advised to that effect by telegraph. Until further notice, therefore, the form showing the information for each individual member bank should be retained at your bank."

Approved unanimously, together with the following telegram referred to in the above letter:

"Please prepare form showing following information



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"For each bank in your district that was a member of the Federal Reserve System on June 30, 1941:

Name, location, and reserve classification of bank

1. Total demand deposits, June 30, 1941 \_\_\_\_\_

2. Interbank demand deposits, June 30, 1941 \_\_\_\_\_

3. Item 1 minus item 2 \_\_\_\_\_

4. Total demand deposits, June 30, 1938 \_\_\_\_\_

5. Interbank demand deposits, June 30, 1938 \_\_\_\_\_

6. Item 4 minus item 5 \_\_\_\_\_

7. Ratio of item 1 to item 4 (per cent) \_\_\_\_\_

8. Ratio of item 3 to item 6 (per cent) \_\_\_\_\_

"Item 1 above is to be entered from item 7 in call report Schedule E, and item 2 above from items 4 and 5 (combined) in Schedule E. Items 4 and 5 above should be entered from call report Schedule J. All deposit figures should be entered in thousands of dollars (disregard amounts under \$500). Ratios should be carried to one point beyond the decimal (for example, 143.8).

"Forms for distributing the banks by amount of demand deposits and by ratio of June 1941 deposits to June 1938 deposits are being mailed. The frequency distributions should be mailed or telegraphed in time to reach Board's offices by Monday morning, September 15, to be followed later by the individual member bank forms.

"The forms for banks that were not members of the System on both dates (1941 and 1938) need not be completed, but dates of admission to membership should be indicated thereon. Such banks cannot be included in the frequency distributions. Any member bank which during the 3-year period absorbed another bank whose June 1938 figures are not available should also be excluded, with explanatory note, unless the absorbed bank was relatively small compared with the continuing bank. If the absorbed bank's figures for June 1938 are available, they should be combined with those of the continuing bank. It is contemplated that the data requested will be compiled from records in your possession and that inquiry must not be made of member banks."

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

"Board believes it would be helpful in considering broad questions of policy as to administration and revision of Regulation W if it could have current information as to reactions of consumers and that it would also promote good relations with trade and public if at head office and through branches you would, if you have not already done so, arrange with local merchants and lenders to ascertain what their customers think about new requirements, whether favorable or unfavorable, and why. In view of decentralization of administration, it seems preferable for you to have these arrangements originate with your bank and branch as the case may be, without making any reference to the Board. Kindly report results by letter to Board from time to time."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-31 through Reg. W-39. The following are inquiries received under Regulation W, and Board's answers thereto:

"W-31. Question: Is consumer who knowingly violates or induces violation of regulation subject to criminal penalties? Answer: Knowing participation in violation may subject offender to criminal penalties.

"W-32. Question: Section 8(f) line 6, do words 'any other extension of credit' mean any other extension of instalment credit? Answer: Words quoted include but are not confined to other extensions of instalment credit.

"W-33. Question: May a new furnace be purchased without down payment in emergency situations? Answer: Exceptions to down payment requirements are those stated in section 6, none of which extend to the situation described, and the exception inherent in section 5(b).

"W-34. Question: Suppose bank loans on instalment basis or otherwise to a finance company secured by instalment contracts on listed articles. Must bank look to regularity of security? If bank is not required to examine each item of collateral, what is purpose of section

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"3(a)(2)(B)? Answer: So long as bank's payments arise only out of the loan as distinguished from the underlying obligation, it need not investigate underlying collateral. This is so that lender who takes such collateral will not be in worse position than one who lent unsecured. However, if and when lender attempts to obtain payments which arise out of the underlying obligations, i.e., to enforce the underlying obligation as distinguished from the loan, the lender is forbidden to receive the payments unless requirements of section 3(a)(2)(B) were met. This is so that registrant who loans upon instalment obligations will not be in more favorable position than one who discounts or purchases the obligation. To extent that registrant is willing to assume the business risk, he may lend on instalment obligation without inspection, realizing the disabilities which may appear later if it should become necessary to disregard loan and rely upon underlying instalment obligations. See W-5.

"W-35. Question: If bank makes instalment loan under \$1,000, either secured by listed article or not secured at all, must bank take statement as to proposed use of proceeds of loan? Answer: Registrant is not required to take statement as to proposed use of proceeds in such cases irrespective of whether loan is secured by listed article. However, statement accepted in good faith by registrant will protect registrant as mentioned in 8(c) and in similar provisions.

"W-36. Question: May bank make loan secured by listed article owned more than 45 days in order to make down payment on new listed article? Answer: Section 8(f) does not prohibit making a loan which will serve as down payment. It merely applies to registrant who is required to obtain the down payment (or required to limit loan to maximum credit value) and prohibits him from making the extension of credit if he knows or has reason to know of side loan for making the down payment.

"W-37. Question: May bank make loan secured by listed article owned more than 45 days in order to pay in full the cash purchase price of a new listed article? Answer: Yes.

"W-38. Question: Customer purchases from same seller listed articles on several different days. All purchases are put on open charge account without down payments with the understanding that when last article is



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"purchased a definite contract will be made. If all purchases go into a single contract must the entire contract be dated back to the date of purchase of first article and must the 18 months run from that earliest date? Answer: If intention is for instalment payments, down payments should be obtained at times of different purchases. Similarly, 18 month maximum maturities would date from different purchases and need not go back to purchase of first article.

"W-39. Question: When borrower makes bank loan on straight note for six months not payable in instalments is there anything in regulation to prohibit an agreement at the time of making the loan to renew the loan at the end of six months period or at subsequent due dates? Answer: Question is not entirely clear and answer would depend on all relevant circumstances. There is nothing to prohibit agreement for renewal if renewal is to be made without reduction. However, if agreement is that renewal is to involve a reduction, loan would seem to be instalment credit and subject to requirements of the regulation."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Donald J. [Signature]  
Vice Chairman.