

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 17, 1941, at 10:45 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel

Before this meeting Mr. Ransom brought to the attention of the members of the Board, who were in Washington, a letter dated September 4, 1941, from Rolf Nugent, alternate for Mr. Henderson, Administrator of the Office of Price Administration, on the consultative committee created by executive order 8843, in which Mr. Nugent suggested, for reasons stated in the letter, that the Board would find it advantageous to select a small technical advisory committee composed of persons who were intimately acquainted with operating practices in the various fields covered by Regulation W, Consumer Credit. Mr. Ransom stated that he had given careful consideration to Mr. Nugent's suggestion and he outlined briefly the reasons why, in his opinion, it should not be adopted at this time.

Mr. Morrill was requested to prepare a letter to Mr. Nugent which would be sent on approval by Mr. Ransom, advising that his letter had been brought to

9/17/41

-2-

the attention of the members of the Board, and that it had been decided that no action would be taken with respect to appointment of the suggested committee at this time.

There was presented a letter dated August 6, 1941, from Mr. Sproul, President of the Federal Reserve Bank of New York, referring to the policy followed by the Federal Reserve Bank of Boston for a period of over two years of declining to participate in new foreign accounts, including accounts for foreign governments, opened and maintained by the New York Bank in accordance with the established procedure, and stating that in view of the large amounts involved and because the Federal Reserve Bank of Boston was not only declining participation in new central bank accounts, but, by declining to participate in newly opened government accounts which took the place of accounts previously maintained in the names of central banks of the respective countries, was effectively reducing the aggregate amount of its participation in all foreign accounts, the matter had been taken up with Mr. Young, President of the Boston Bank, and that copies of the resulting correspondence were being sent to the Board. The letter stated further that the Boston Bank was participating to the extent of \$53,782,000 in thirty-three accounts and had declined participation in the amount of \$28,463,000 in twelve accounts, that up to the present time the New York Bank had not offered participation to the remaining Federal Reserve Banks in the amounts not taken by Boston, but that after

9/17/41

-3-

discussing the matter with the directors of the New York Bank it was felt that it would be appropriate and in accordance with established policy to offer such participation to other Federal Reserve Banks, and that the Board's approval of this step was requested. Mr. Sproul's letter had been circulated before this meeting among the members of the Board who were in Washington.

During a discussion of the letter, Mr. Morrill stated that he had been advised informally by Mr. Knoke, Vice President of the Federal Reserve Bank of New York, that, if the Board were agreeable to the remaining Federal Reserve Banks' participating in Boston's share of the twelve accounts, Mr. Sproul would take the matter up with the Presidents of the Reserve Banks at their forthcoming conference.

Mr. McKee suggested that Mr. Morrill be requested to prepare and submit to the Board for approval letters to the Chairman of the Federal Reserve Bank of Boston requesting a more precise statement of the reasons for the policy of the Boston Bank of not participating in the accounts in question, and to Mr. Sproul stating that the Board approves the Federal Reserve Bank of New York offering, and the remaining Federal Reserve Banks accepting, participation in the shares in foreign accounts not accepted by the Boston Bank.

This suggestion was approved unanimously.

Consideration was also given to a memorandum prepared by Mr. Vest, Assistant General Counsel, under date of August 30, 1941, in

9/17/41

-4-

which reference was made to the question presented to the Board by the Comptroller of the Currency and the Federal Reserve Bank of Dallas whether an officer of a member bank, who was also serving as a director and as a member of the discount committee of the bank should be regarded as an executive officer within the meaning of Regulation O, Loans to Executive Officers of Member Banks, notwithstanding the adoption of a resolution by the board of directors, providing that he is not authorized to participate in the operating management of the bank. The memorandum, after stating that the overwhelming majority of opinions expressed by the Federal Reserve Banks in response to the Board's letter of July 17, 1941, on this subject, (R-856) were that the officer should not be considered an executive officer, reviewed the principal arguments on both sides of the question and expressed Mr. Vest's personal view that an officer in the circumstances described should be regarded as an executive officer within the meaning of the Regulation. The memorandum, which had been circulated before this meeting, stated that a decision on the matter was principally one of policy as the answer depended on the way in which the Board decided to interpret the provisions of its Regulation.

In a discussion of the application of a ruling that an officer in the case under consideration would be an executive officer within the provisions of Regulation O, it was pointed out that such a ruling would mean that an officer who was also a director would become an

9/17/41

-5-

executive officer whenever he became a member of the discount committee, notwithstanding a resolution of the board of directors that he was not authorized to participate in the management of the bank.

Mr. McKee suggested that, in order to distinguish between the case where service on the discount committee was in the capacity of a director from the case where service on the committee might be in the capacity of an officer, the Board take the position that in the case under consideration, whenever the bylaws of the bank provided that every member of the board of directors should serve in rotation as members of the discount committee and the directors did, in fact, serve on the committee in accordance with that provision, the officer would not be an executive officer within the meaning of Regulation O.

This suggestion was approved unanimously, and Mr. Vest was requested to prepare for consideration by the Board, drafts of letters to the Federal Reserve Banks and to the Comptroller of the Currency advising them accordingly.

Mr. Ransom stated that he was opposed in principle to "inactive" officers and that he had previously taken the position that inactive officers of banks should not be exempt from the provisions of Regulation O, that he was still of that opinion, but that as long as the Board adhered to its present policy on that point he saw no objection to the ruling set forth above.

Mr. Wyatt stated that about 5:30 yesterday afternoon, Under Secretary of the Treasury Bell called him on the telephone and said that

9/17/41

-6-

for some time the Treasury had been thinking about trying to get legislation to eliminate discrimination between direct and fully guaranteed obligations of the Government, that there were various statutes which discriminated between the two classes of obligations including some provisions in the Federal Reserve Act relating to their use as a basis for the extension of credit by the Federal Reserve Banks, and that he would like to know how the Board felt about the matter.

The members of the Board who were present indicated that they saw no reason to object to the Treasury seeking such legislation, but Mr. Szymczak suggested that, before anything was said to the Treasury regarding the matter, it be discussed with Chairman Eccles.

With the approval of the other members of the Board, Mr. Ransom requested that Mr. Wyatt, with Messrs. Clayton and Thurston, discuss the matter with Chairman Eccles over the telephone, it being understood that if Chairman Eccles saw no objection to the Treasury seeking legislation, Mr. Clayton or Mr. Thurston would so report to Mr. Bell, stating that the Board had no objection to offer and that, if desired by the Treasury, Mr. Wyatt would be requested to work with the Treasury on the technical phases of the legislation.

Reference was then made to a memorandum dated September 12, 1941, from Mr. Goldenweiser calling attention to an informal request from the State Department that the Treasury and the Board of Governors authorize technical experts from their respective staffs to go to Cuba to assist in developing legislation to establish a central bank in

9/17/41

-7-

Cuba, and recommending (1) that Chandler Morse, Associate Economist in the Division of Research and Statistics, be authorized to make the trip to Cuba with the understanding that the question of the expense involved would be determined by negotiation with the State Department on the assumption that the Board would pay Mr. Morse's salary and the Board's contributions to the Retirement System in his behalf during his absence and the State Department would pay his necessary travel and subsistence expenses, and (2) that, in the circumstances in which the request of the State Department was made, the Board suggest to that Department that it would be best if the head of the mission to Cuba came from the Board's staff since the purpose of the mission related to a central banking matter. The memorandum also stated that if the Board agreed with the second recommendation, it was suggested that it designate Mr. Goldenweiser to go to Cuba for a few days and, if for any reason that was not feasible, that Mr. Gardner be sent.

Mr. Ransom stated that in view of the current discussions being conducted with representatives of the Treasury on the subject of action to be taken in the field of credit control, Mr. Goldenweiser could not be spared at the present time, and that he would suggest that the Board approve the recommendation with respect to Mr. Morse and that Mr. Goldenweiser be requested to advise the State Department that if it was believed to be desirable that an operating man be a member of the mission to Cuba, the Board would join with the State Department in

9/17/41

-8-

asking the Federal Reserve Bank of New York to make an employee available for that purpose.

This suggestion was approved unanimously.

The meeting then recessed and reconvened at 3:15 p.m. with the same attendance as at the morning meeting except that Mr. Morrill was not present and Mr. Parry, Chief of the Division of Security Loans, and Mr. Cravens, Consultant in the Division of Security Loans, were in attendance.

Mr. Ransom referred to the informal discussion in the Board room yesterday morning of proposed bases for the determination of the maximum credit value of automobiles for the purposes of Regulation W and stated that as a result of that discussion it had been decided to recommend to the Board the adoption of an amendment to Regulation W which would, in effect, provide that whenever the manufacturer had advertised or recommended a delivered price at the factory that price would be used, and that, whenever such a price had not been advertised, the maximum credit value would be based on the advertised price for the corresponding 1941 model increased or decreased by the percentage by which the manufacturer's wholesale price to the dealer for the 1942 model was increased or decreased from the wholesale price for the 1941 model. He stated that if the Board was willing to adopt such an amendment he would suggest that the proposed amendment be sent to automobile manufacturers, the National Automobile Dealers

9/17/41

-9-

Association, the three principal automobile finance companies, the American Finance Conference, and other interested representatives of the "trade" with a request that any suggestions that they might wish to offer be submitted to the Board not later than six o'clock on the afternoon of September 18, 1941. He added that if this suggestion were adopted, it was anticipated that the proposed amendment would be submitted to the Board for final action on Friday, September 19.

The members of the Board indicated that they were in agreement with the procedure suggested by Mr. Ransom and unanimous approval was given to the following telegram to be sent to the parties mentioned:

"Board has under consideration the following amendment to Regulation W:

'Part 3(a) of the Supplement to Regulation W is hereby amended to read as follows:

'(a) The maximum credit value of a new automobile shall be $66 \frac{2}{3}$ per cent of the bona fide cash purchase price of the automobile and accessories (including any sales taxes thereon and any bona fide delivery charges) but such maximum credit value shall in no event exceed $66 \frac{2}{3}$ per cent of the sum of the following items:

'(1) The manufacturer's retail quotation at factory, or the equivalent of such quotation. (For the purposes of this regulation, this means the retail delivered price of the automobile with standard equipment at the factory, as advertised, or as suggested or recommended to dealers, by the manufacturer; or in the case of a 1942 model for which such a price has not been so advertised or suggested or recommended, it means the price last so advertised or suggested or recommended for the corresponding 1941 model, increased or decreased

9/17/41

-10-

"by the percentage by which the manufacturer's wholesale price of the 1942 model is increased or decreased from the manufacturer's wholesale price of such 1941 model.)

'(2) Transportation charges from factory to point of delivery as suggested or recommended by the manufacturer for inclusion in the retail delivered price at that point, or in the absence of any such suggestion or recommendation then an amount substantially equal to the freight by rail from factory to that point;

'(3) Any Federal, State, or local taxes not included in the foregoing; and

'(4) Any bona fide charges for delivery or accessories not included in the foregoing items.

'In case the automobile is sold for delivery at the factory, by a dealer in a given place to a resident of such place or its vicinity who actually intends to bring the automobile to such place or vicinity and use it there, an amount equal to the freight from the factory to such place may be included.'

"If you have any suggestions or comments regarding the foregoing proposed amendment it will be appreciated if you will submit them by wire through the Secretary of the Board of Governors at Washington so that they may be received before 6:00 p.m. Eastern Standard Time Thursday, September 18."

At this point Messrs. Parry, Dreibelbis and Cravens withdrew from the meeting, and Messrs. Goldenweiser, Smead, Vest, Thomas, Horbett, Gardner, Longstreet, Despres, Piser, Kennedy, and Musgrave of the Board's staff, and John H. Williams, Associate Economist for the Federal Open Market Committee, entered the room.

Mr. Ransom stated that this meeting constituted a resumption of the weekly meetings commenced last July for the purpose of discussing a series of topics as set forth in a memorandum prepared by Mr.

9/17/41

-11-

Goldenweiser under date of July 14, 1941, but that the meeting today would be devoted to a discussion of the problem of excess reserves of member banks.

Mr. Goldenweiser referred to possible changes in the volume of excess reserves over the next year and discussed briefly the factors that would affect total reserves. He then stated that, in accordance with action taken by the Board, members of the Board's staff and Mr. Williams, representing the Federal Open Market Committee, had been discussing with members of the staff of the Treasury Department the objectives, and the form of, action to deal with the excess reserve situation, and that although no final decisions had yet been reached, it had been agreed that any action taken would have the following objectives: (1) to place restraint on the expansion of bank deposits, (2) to avoid the creation of a situation in which any bank would be obliged to liquidate loans or investments, (3) to continue a sufficient amount of excess reserves to enable the banking system to make all defense loans that might be necessary and to purchase such amounts of Government securities as it may be found necessary for them to take, and (4) to place the Federal Reserve System in a position where it was again in contact with the market and could, through open market operations and other actions, exercise some influence on the volume of bank credit.

With these four objectives in mind, he said, it was assumed

9/17/41

-12-

in the discussions that action would be taken by the Board of Governors to increase reserve requirements to the maximum permitted by present law, that any further authority over bank reserves would be in such form as would apply to both member and nonmember banks, and that the present reserve classification of banks would be changed so that action could be taken with respect to New York City banks, reserve city banks, or country banks, or with respect to any combination of these classifications. He added that there was also agreement that presumably whatever new powers over reserves were sought they would not need to apply to time deposits as it was felt that the requirement of 6 per cent on such deposits was satisfactory.

Mr. Goldenweiser then stated that the objectives stated above could be achieved by having additional powers on a percentage basis with some kind of moratorium provision that would (1) exempt banks which, in the event of further increases in reserves would be deficient in required reserves, from penalties for such deficiencies and from the prohibition against making loans or paying dividends while their reserves were deficient, or (2) require banks with deficient reserves to maintain dollar for dollar reserves against additional deposits until such time as they had increased their reserves to the required level.

Another form of action, Mr. Goldenweiser stated, would be to adopt a plan by which a higher percentage of reserve requirements

9/17/41

-13-

would be applied to additional deposits, with the provision that, when a bank had or acquired reserves equal to a stated percentage of its total demand deposits, its required reserves thereafter would be that percentage of such deposits.

He also said that the third alternative discussed during the conferences was the "ceiling plan" which would provide for a reserve requirement on additional deposits of something less than 100 per cent, possibly 50 per cent, and that the representatives participating in the conferences favored that alternative which, if applied after action by the Board to increase reserve requirements to the maximum limit now authorized, would permit a further expansion of bank loans and investments of between six and seven billion dollars, which, it was felt, should be adequate for the time being. He added that it was possible that the reserve requirement on new deposits might be fixed at some point higher than 50 per cent, depending on the needs for Treasury and defense financing, and that at present he would favor a higher rate.

He made the further statement that there was agreement among the representatives that the present was an opportune time to request two technical amendments to the present law, (1) to permit the counting of vault cash as reserves which would have the advantage of appealing to nonmember banks which for the first time would be affected by Federal law relating to reserve requirements, and (2) to impose a higher

9/17/41

-14-

reserve requirement on inter-bank deposits and to authorize any bank to count as reserves the portion of its deposits with other banks that such other banks were required to hold as reserves with the Federal Reserve Bank. That, he said, would also be acceptable to nonmember banks and greatly reduce the effect on central reserve and reserve city banks of the loss of bank deposits.

He concluded with the statement that if these two changes in the present law were adopted it would be necessary to change the percentages of required reserves to offset the effect of the amendments on the volume of bank reserves, after which any new increases in reserve requirements that might be agreed upon would be applied.

During a discussion of points raised in connection with Mr. Goldenweiser's statement, Mr. Williams said that, while there were still some questions in his mind, particularly with respect to the reserve percentages that should be applied, he felt that there was every argument for the exercise by the Board of its remaining authority to increase reserve requirements, that he regarded the present as an excellent time to effect the two amendments in the law proposed by Mr. Goldenweiser which he (Mr. Williams) regarded as being basic and a desirable preliminary to any further action, and that beyond that point he would favor the adoption of a conservative policy with respect to further increases in reserve requirements.

Mr. Ransom referred again to the position of the Treasury

9/17/41

-15-

that any decision with respect to the action to be taken in connection with reserve requirements should be made before the end of this month as the Treasury felt that it would be necessary to make some announcement in the early part of October of major Treasury financing and that announcement of any action with respect to reserve requirements should be made before that time. He also discussed briefly the position of the Treasury representatives that before action was taken by the Board under its existing authority to increase reserve requirements, a decision should be reached as to the form that any additional powers over reserves should take, and he suggested that in these circumstances, Messrs. Goldenweiser and Williams be requested to continue the discussions with the Treasury for the purpose of reaching a decision on the whole program as promptly as possible.

Mr. McKee inquired whether the Federal Deposit Insurance Corporation was represented in the discussions being carried on and it was stated that Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation was being informed of developments and members of the staff of the Corporation were working with representatives of the Board and the Treasury on the matter.

Mr. Goldenweiser stated that if agreeable to the Board he would reduce to writing the statement which he made earlier in the meeting as a basis for further discussions with Treasury representatives on Friday of this week.

9/17/41

-16-

Mr. Ransom suggested that, before the memorandum referred to by Mr. Goldenweiser was sent to the Treasury, Mr. Clayton or Mr. Thurston ascertain the views of Chairman Eccles and whether, in view of the fact that further discussions with members of the Treasury's staff undoubtedly would result in a definite agreement on a program to be recommended to the Board and the Treasury, he had any suggestions to make as to the procedure to be followed.

There was unanimous agreement with Mr. Ransom's suggestion.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Vest, Thomas, Horbett, Gardner, Longstreet, Despres, Piser, Kennedy, Musgrave, and Williams 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 August 22, 1941, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on August 25, 26, 27, 28, 29, September 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 15, and 16, 1941, were approved and the actions recorded therein were ratified unanimously.

The minutes of the meeting of the Board of Governor of the Federal Reserve System with the Federal Advisory Council held on September 15, 1941, were approved unanimously.

Memorandum dated September 15, 1941, from Mr. Nelson, Assistant Secretary, recommending that Bruce Bishop, a guard in the Building Operations and Maintenance Section of the Secretary's Office, be

9/17/41

-17-

granted leave of absence without pay beginning September 16, 1941, for the purpose of entering active duty with the United States Naval Reserve, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended on August 20, 1941, for all employees entering military service.

Approved unanimously.

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

"Board approves appointment, effective October 1, 1941, of Roy J. Smith as an examiner for Federal Reserve Bank of Dallas."

Approved unanimously.

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

"Reg. W-63. The following question has been received under Regulation W and has been answered in the affirmative:

'Used car has unpaid instalment contract. May dealer pay off unpaid contract, apply the equity in the used car against down payment on new car and finance the difference (assuming it is not more than $66\frac{2}{3}$ per cent of the cash price) between the equity and the price of the new car over 18 equal payments?'"

Approved unanimously.

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

"Reg. W-64. Inquiries have been received as to applicability of Regulation W to a case where vendor of a listed

9/17/41

-18-

"article requests a prospective purchaser to allow him to install it in prospective purchaser's home 'on trial' or 'on approval' for a 60-day period. The prospective purchaser agrees and at end of 60-day period decides to purchase the article. At what time is the sale of the article to be regarded as having been made?

"Assuming that the transaction is entered into in good faith and not for the purpose of evasion, the Board is of the opinion that if the prospective purchaser has the unconditional right to return the article to the prospective vendor at any time within the 60-day period, and if the prospective purchaser does not make, and is not obligated to make, a deposit or payment of any kind to the prospective vendor unless and until he informs the prospective vendor that he has decided to purchase the article, the date of sale, for the purpose of Regulation W, may be regarded as the day on which the prospective purchaser informs the vendor of his decision to purchase the article."

Approved unanimously.

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

"Local managers of Better Business Bureaus may call to offer cooperation in obtaining compliance with Regulation W. Think such cooperation may be quite useful."

Approved unanimously.

Telegram to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Your wire September 15 stating two questions under Regulation W. Re your second question, if Registrant extends credit which he knows or has reason to know is to renew a credit held by another Registrant, section 8(c) places him on same basis as the other Registrant. Hence he is subject to same restrictions in the absence of a statement of necessity and also may grant the same concessions if he accepts the statement of necessity in

9/17/41

-19-

"good faith as provided in 8(d)."

Approved unanimously.

Mr. Szymczak suggested that the Board authorize the payment of the cost of luncheon served in the Board's dining room today to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved: Ronald Hanson
Vice Chairman.