

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 23, 1941, at 12:50 p.m.

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

Mr. Morrill, 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. Smead, Chief of the Division of Bank Operations

Mr. Ransom referred to the fact that, because of a bad storm in the Rocky Mountain area, Chairman Eccles had not been able to leave Salt Lake City by plane last night and would not be here today, and that the members of the Board and members of the staff had been present in the conference room during a conversation over the loud speaker telephone with Chairman Eccles this morning when the draft of a statement prepared in accordance with the action taken at the meeting yesterday afternoon was thoroughly discussed and certain further changes were suggested by the Chairman. It was understood during the telephone conversation that the statement would be rewritten and that after it had been cleared with Under Secretary of the Treasury Bell, the revised statement would be read to Chairman Eccles over the telephone to ascertain whether he approved.

9/23/41

-2-

There was discussion of the question to what extent the issuance of the proposed statement might limit testimony that might be given by the Secretary of the Treasury and Chairman Eccles when they appear later in the week at hearings before the House Banking and Currency Committee on price control legislation. Mr. Ransom stated that he had hoped that if the statement were issued it would not be necessary for either the Secretary or the Chairman to go beyond the statement in their testimony. As to the timing of action by the Board, there was unanimous agreement that action should be taken, if possible, before Secretary Morgenthau appeared before the House Committee.

In a further discussion of the draft of statement it was suggested that two statements be issued, one by the Board with respect to the action increasing reserve requirements and one by the Secretary of the Treasury and Chairman Eccles, with the concurrence of the Board, with respect to further steps to be taken.

It was agreed that Mr. Thurston would revise the statement in accordance with this suggestion.

There was also a discussion of the question whether in taking action to increase reserve requirements the Board should waive penalties temporarily for deficiencies in reserves occasioned by the increase and there was general agreement that this should be done.

At 1:15 p.m. the meeting recessed and reconvened at 2:25 p.m. with the same attendance as at the morning session except that Mr.

9/23/41

-3-

Wyatt, General Counsel, was present, and Mr. Thomas, Assistant Director of the Division of Research and Statistics, was present for a period when the details of the statement to be issued by the Board were being discussed.

A draft of the statement to be released by the Board was read and changed in certain particulars including a change to state that the Board had determined that penalties for deficient reserves prior to December 1, 1941, would be based upon reserve requirements in effect on October 31, 1941. In connection with this point it was stated that although the Board could waive penalties for deficiencies in reserves, it was without authority to relieve member banks of the necessity of complying with the requirement of section 19 of the Federal Reserve Act that they shall not make new loans or pay dividends while their reserves are deficient. There was agreement that when action was taken by the Board to amend the Supplement to Regulation D the amended Supplement should contain a footnote to the effect that the penalties prescribed by section 3(b) of Regulation D on deficiencies occurring prior to December 1, 1941, should be assessed on the basis of reserve requirements in effect immediately prior to the adoption of the amended Supplement.

The draft of statement to be issued by the Secretary of the Treasury and the Chairman of the Board was then read and, after a discussion during which certain changes were made in the statement,

9/23/41

-4-

it was agreed unanimously that Mr. Goldenweiser should present the two statements to Mr. Bell at the Treasury with the comment that the general questions of policy as proposed in the statements had been cleared with Chairman Eccles, that, if the statements were satisfactory to Mr. Bell, they would be cleared as to form with Chairman Eccles, and that it was the feeling of the Board that they should be released for publication on the morning of the first day upon which the Secretary testified before the House Banking and Currency Committee on the price control legislation.

Mr. Goldenweiser left the meeting for that purpose.

Mr. Gardner, Senior Economist in the Division of Research and Statistics, was called into the meeting and said that the State Department desired to inform the Cuban Government as promptly as possible who would comprise the membership of the mission to be sent to Cuba to assist in developing legislation to establish a central bank in Cuba, and that the question before the Board was whether, in addition to authorizing someone from the Division of Research and Statistics to go, it would also authorize a member of the Legal Division (presumably Mr. Vest, Assistant General Counsel) to make the trip. He added that it had been decided by the State Department that the mission would be under the leadership of Mr. White, Director of the Division of Monetary Research of the Treasury, while he was in Cuba and that he (Mr. Gardner) would be the operating head of the mission after

9/23/41

-5-

Mr. White left.

Mr. McKee inquired as to the necessity for having a lawyer from the Board's staff as a member of the mission and Mr. Gardner replied that he did not know at this time that the services of a lawyer would be necessary, but that if assistance were desired in the actual drafting of legislation it would be very helpful to have someone available who had experience in drafting banking legislation in this country, that it might be possible that the need could be met by having the lawyer go to Cuba after any necessary investigative work had been done, but that it was believed to be desirable to have him participate in all of the general discussions that might be held. Mr. Gardner made the further comment that he had written to Mr. Bryan, First Vice President of the Federal Reserve Bank of Atlanta, as to the availability of Mr. Frazer, former Manager of the Havana Agency of the Federal Reserve Bank of Atlanta, as it had been suggested that, because of his thorough familiarity with Cuba and the Spanish language, he might be of great assistance to the mission.

Mr. Wyatt stated that, while the volume of work in the Legal Division made it desirable that Mr. Vest remain here, he could be spared for the trip to Cuba if the Board so desired.

Mr. Ransom inquired what Mr. Gardner's recommendation would be and the latter stated that he would suggest that he and Mr. Vest be authorized to go to Cuba for the purpose stated and that, if it were

9/23/41

-6-

ascertained that Mr. Frazer would be available and his assistance would be valuable, authorization be given to have him make the trip, all of which would be at the expense of the Board.

Mr. McKee inquired whether a lawyer from the Treasury would be included in the membership of the mission and Mr. Gardner replied that he did not know but that he understood that the Treasury representatives on the mission would be confined to three persons and that the System's representatives would be confined to two including a lawyer should the Board decide to send one.

Mr. McKee moved that Mr. Gardner and Mr. Vest be authorized to serve as members of the mission and that, if it were found that Mr. Frazer's services would be valuable and that he would be available for the purpose, the Board request the Atlanta Bank to authorize him to make the trip, it being understood that the salaries, retirement contributions, and authorized travel and subsistence expenses involved would be paid by the Board.

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

Mr. McKee stated that he would like to have Mr. Gardner consider further whether it would be necessary for Mr. Vest to serve as a member of the mission.

At this point Mr. Gardner left the meeting.

Mr. Ransom was called from the room and upon his return stated that he had just talked over the telephone with Mr. Goldenweiser who said that the statements previously referred to during this meeting

9/23/41

had been cleared with Mr. Bell and by Mr. Bell with the Secretary of the Treasury who suggested only one change in the third line of the statement to be issued by the Board to substitute "Secretary of the Treasury" for "Treasury", that the Secretary had inquired whether the statements had been cleared with the President and upon being advised in the negative stated that he would like to advise the President regarding the matter which could be done by telephone, that Mr. Morgenthau agreed that if he was to appear before the House Banking and Currency Committee tomorrow in connection with the price control legislation the statements should be released for publication in tomorrow morning newspapers, and that he would know by 5:00 p.m. today whether he would be called to testify tomorrow.

With the amendment suggested by Secretary Morgenthau, the two proposed statements were in the following form:

Board Statement

"As a further step in the Government's program for combating inflation, the Board of Governors of the Federal Reserve System, after consultation with the Secretary of the Treasury, has today increased reserve requirements for member banks to the present statutory limit, effective November 1. This action, unanimously agreed upon, increases reserve requirements by about one-seventh.

"The requirements beginning on that date will be: for demand deposits, 26 per cent at central reserve city banks, 20 per cent at reserve city banks, and 14 per cent at country banks; for time deposits, 6 per cent at all classes of member banks. This action will result in a reduction of excess reserves from about \$5.2 billion to about \$4 billion for member banks taken as a whole. At central reserve city banks excess reserves will be reduced approximately from \$2,400,000,000 to \$1,700,000,000;

"at reserve city banks, from \$1,850,000,000 to \$1,500,000,000, and at country banks from nearly \$1,000,000,000 to \$800,000,000.

"The action will leave the banks as a whole with ample funds to meet all bank credit needs of the defense program and all legitimate requirements of their customers. A survey made recently by the Board showed that a large majority of the member banks will be able to meet the increased requirements out of existing excess reserves and all but a few of the remainder by drawing upon a portion of their deposits with city correspondents.

"The Board determined that penalties for deficient reserves prior to December 1, 1941 shall be based upon reserve requirements in effect October 31, 1941.

"The following table compares the new requirements with present requirements which have been in effect since April 16, 1938.

Member Bank Reserve Requirements  
(Per cent of Deposits)

Classes of deposits and banks	Present requirements	New requirements
On net demand deposits:		
Central reserve city banks ...	22 3/4	26
Reserve city banks .....	17 1/2	20
'Country' banks .....	12	14
On time deposits:		
All member banks .....	5	6"

Joint Statement

"In connection with the action taken today by the Board of Governors of the Federal Reserve System to increase reserve requirements, the Secretary of the Treasury and the Chairman of the Board issued the following statement in which the Board of Governors concurs:

"The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts, through priorities, allocations, price regulation, and otherwise, to fight inflation. Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form these powers should take will be made whenever the Treasury and the Board, after

9/23/41

-9-

"further consultation, determine that such action is necessary to help in combating inflationary developments."

At this point Mr. Goldenweiser returned to the meeting.

At 4:30 p.m. the meeting moved into the conference room for the purpose of talking again with Chairman Eccles over the loud speaker telephone.

Mr. Thurston read the proposed statements to the Chairman and informed him of the approval of the statements by Under Secretary Bell and Secretary Morgenthau and of the latter's suggestion as to their release.

At 4:55 p.m., while Chairman Eccles was still on the telephone, Secretary Morgenthau called Mr. Ransom, and, before leaving to take the call, the latter inquired whether Chairman Eccles was in agreement with the statements. Chairman Eccles replied that he was.

Upon his return to the room a few minutes after 5:00 p.m. Mr. Ransom took the telephone again and stated to Chairman Eccles that Secretary Morgenthau had advised that he had cleared the statements with the President, that the Secretary was to appear before the House Banking and Currency Committee tomorrow, that in his testimony before the committee he proposed to say that the joint statement expressed his views at the present time and that beyond that he was not prepared to make a statement, and that he hoped that when Chairman Eccles appeared before the Committee he would follow the same course. Mr. Eccles said that he would endeavor to do so, but that as he had a personal record in the matter, he could not evade any direct questions as to

9/23/41

-10-

his own beliefs and opinions as reflected in his previous public utterances. Mr. Ransom also stated that in accordance with a suggestion by Mr. Szymczak, after action had been taken by the Board today, he would call Mr. Henderson, Administrator of the Office of Price Administration, and advise him of what had been done.

During the course of the telephone conversation Chairman Eccles stated that the weather was still bad in Ogden and that he did not know whether he would be able to leave by plane tonight and that if he did not do so he would try to catch the Streamliner tomorrow and arrive in Washington on the morning of Friday, September 26.

The meeting then moved back into the Board room and upon motion by Mr. McKee the following resolution was adopted by unanimous vote:

Resolved, that the Supplement to Regulation D be amended to read as follows:

"SUPPLEMENT TO REGULATION D

"Effective as to each member bank at the opening of business on November 1, 1941\*

"Reserves required to be maintained by member banks with Federal Reserve banks

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

6 per cent of its time deposits plus--  
14 per cent of its net demand deposits  
if not in a reserve or central reserve city;

9/23/41

-11-

"20 per cent of its net demand deposits if in a reserve city, except that if located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain 14 per cent reserves against its net demand deposits;

26 per cent of its net demand deposits if located in a central reserve city, except that if located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain 14 per cent or 20 per cent reserves against its net demand deposits.

"The supplements to Regulation D which have previously been issued are hereby revoked and superseded.

"\*The penalties prescribed by section 3(b) of Regulation D on deficiencies occurring prior to December 1, 1941, shall be assessed on the basis of the reserve requirements in effect immediately prior to the adoption of this supplement."

Mr. Szymczak moved that the statement to be issued by the Board be approved and that the Board concur in the joint statement to be issued by the Secretary of the Treasury and the Chairman, both as set forth above.

This motion was put by the chair and carried unanimously.

Mr. Ransom raised the question whether, in view of the Chairman's continued absence he should plan to go to St. Paul on September 25 for the purpose of addressing the State Bank Supervisors in convention there.

9/23/41

-12-

It was agreed unanimously that, in view of all the circumstances, Mr. Ransom should not go and that Mr. Morrill should call Mr. Peyton by telephone and ask him to explain why it was not possible for Mr. Ransom to fill the appointment.

At this point Messrs. Thurston, Goldenweiser, Smead, and Wyatt 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 September 22, 1941, were approved unanimously.

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

"This rescinds the part of the Board's letter of February 28, 1936 (X-9506, Item #3440, F.R.L.S.), which requested each Federal Reserve Bank to review annually as of the close of the year the condition of each State member bank in its District which is subject to the present standard condition of membership numbered 2, or former standard condition of membership numbered 15, respecting the maintenance of an adequate capital structure, and, in any case where it appears that the capital structure is not adequate under the provisions of the condition of membership, to advise the Board of the situation with a recommendation as to what action, if any, should be taken by the Board in the circumstances.

"The discontinuance of the request for an annual review and a report thereon does not reflect in any degree whatsoever a modification of the Board's position that it is essential that banks maintain an adequate cushion of sound capital and that, as part of their regular supervisory work, the Reserve Banks use their best judgment and exert their best efforts to bring about and maintain such a condition with respect to all State member banks.

9/23/41

-13-

"The request for an annual review has been rescinded since it seems preferable to emphasize the importance of giving constant and continued attention to the adequacy of the capital structures of all State member banks as part of the regular supervisory work rather than to emphasize the annual review of only the banks subject to a condition of membership regarding maintenance of capital.

"It is assumed that in all cases where an examination by the Reserve Bank discloses inadequacy of capital the analysis on Form 212 submitted to the Board will contain appropriate reference to the situation with a statement as to what action the Reserve Bank has taken or contemplates taking and a recommendation as to the action, if any, the Board should take in the circumstances. It is not intended, of course, that the information and recommendations be limited to those contained in Form 212. It is expected, rather, that in all cases the Reserve Banks will forward from time to time such data as may be necessary in order that both the Reserve Banks and the Board may properly discharge their supervisory responsibilities."

Approved unanimously.

Letter to Mr. Chase, President of the Maine Securities Company,

reading as follows:

"This refers to your letter of September 15, 1941, with further reference to the question whether a member bank of the Federal Reserve System may lend securities. We regret that our reply did not fully answer your inquiry.

"You state that it was your purpose to ascertain whether a bank which is a member of the Federal Reserve System can legally make a loan of securities under any circumstances. The question of the legality of the lending of securities by member banks is a matter of interpretation of the statute and depends in some measure upon the facts of the particular case. The Board of Governors has not made any ruling or interpretation of the law which would forbid the lending of securities by a member bank under all circumstances, nor are we advised of any such ruling made by the Comptroller of the Currency. As you know, the lending of securities under certain conditions is a not infrequent practice of some banks.

9/23/41

-14-

"It is the custom of the Board to refer inquiries such as that made by you under date of August 21, 1941, to the Federal Reserve Bank for reply. However, in view of the request made in your letter that your inquiry be not referred in this way, we departed from the usual policy and replied to your letter directly. Since you had referred to the fact that the matter had been taken up with the Federal Reserve Bank, however, we felt it desirable to have such information regarding the particular case as we could obtain from the bank before undertaking to advise you."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks prepared in accordance with the action taken at the meeting of the Board on September 17, 1941, and reading as follows:

"As stated in the Board's letter of July 17, 1941, the Board has been requested both by the office of the Comptroller of the Currency and by one of the Federal Reserve Banks to render an opinion on the question whether an officer of a member bank, who is also serving as a director and as a member of the discount committee of the bank, is to be regarded as an executive officer within the meaning of the Board's Regulation O, as amended effective July 1, 1939, notwithstanding the adoption of a resolution by the board of directors providing that he is not authorized to participate in its operating management.

"The Board of Governors has considered this question in the light of the definition of the term 'executive officer' in its Regulation O, the views expressed by Federal Reserve Banks and others who have considered this matter, and the authority of the Board to define the term 'executive officer'. The Board has concluded that an officer of a member bank, who is also serving as a director and as a member of the discount committee and with respect to whom a resolution as described above has been adopted by the Board of directors, is to be considered an executive officer within the meaning of Regulation O except in a case where a provision of the by-laws of the bank or a resolution of the board of directors requires the service in rotation of every director as a member of the discount

9/23/41

-15-

"committee and the directors do in fact serve as members of the committee in accordance with such by-law or resolution."

Approved unanimously, together with a letter to Mr. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of May 14, 1941, and our acknowledgment of May 23, 1941, with reference to the question whether a vice president and director of a national bank who is also a member of the discount committee is to be considered an executive officer within the meaning of the Board's Regulation O.

"The Board has concluded that an officer of a member bank, who is also serving as a director and as a member of the discount committee and with respect to whom a resolution as described above has been adopted by the board of directors, is to be considered an executive officer within the meaning of Regulation O except in a case where a provision of the by-laws of the bank or a resolution of the board of directors requires the service in rotation of every director as a member of the discount committee and the directors do in fact serve as members of the committee in accordance with such by-law or resolution.

"For your information in this connection, we are enclosing herewith a copy of a letter which the Board is today addressing to the Presidents of the Federal Reserve Banks with regard to this question."

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

"Reg. W-78. The inclusion or exclusion of articles under the classification 'ice refrigerators', which is a part of Group D-7 'New household furniture' in the Supplement, is determined by the same general principles that have been applied in connection with 'mechanical refrigerators'. Refrigerators of less than 12 cubic feet rated capacity are included, no matter what the use to which they are to be put, unless their design and construction is such that they are clearly usable only for commercial purposes."

Approved unanimously.

9/23/41

-16-

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

"Reg. W-79. The phrase 'bona fide cash purchase price' in section 6(b) means the bona fide cash purchase price of the article and accessories purchased, including any sales taxes thereon and any bona fide delivery and installation charges."

Approved unanimously.

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

"Your wire (re Regulation W). Seller may receive anything of value and count it as part or all of down payment on automobile."

Approved unanimously.

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

"Your wire September 16 regarding trade of Chevrolet and Ford. We agree with you except that cash purchase price of Ford, on which credit value should be based if loan is made within 45 days after purchase, is value of Chevrolet plus \$522. It is to be noted, however, that finance company could rely on B's statement of purchase price under section 5(a)(1)."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

Donald Ferguson  
Vice Chairman.