

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 8, 1941, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 7, 1941, were approved unanimously.

Memorandum dated October 2, 1941, from Mr. Nelson, Assistant Secretary, recommending (1) that, effective immediately, Thomas H. Gad, a page, be appointed on a permanent basis as a clerk in the correspondence and publications section of the Secretary's Office, without change in his present salary at the rate of \$1,260 per annum; and (2) that Albert P. Brodell, Jr., be appointed on a temporary basis for an indefinite period as a page in the Secretary's Office, with salary at the rate of \$1,260 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated October 3, 1941, from Mr. Goldenweiser,

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Director of the Division of Research and Statistics, recommending that Martin Krost, associate economist in that Division, be promoted to the position of senior economist with an increase in salary from the rate of \$5,000 to \$6,000 per annum.

Approved unanimously, effective  
October 16, 1941.

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

"In accordance with the request contained in your letter of October 6, the Board approves the designation of Mr. Wilbur C. Wilson as a special assistant examiner, with the understanding of course that he will not be transferred permanently to examination work without the Board's approval."

Approved unanimously.

Letter to the board of directors of the "Rye Trust Company", Rye, New York, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, 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 New York:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating \$11,781 as shown in the report of examination of such bank as of August 1, 1941, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, together with  
a letter to Mr. Sproul, President of the  
Federal Reserve Bank of New York, reading  
as follows:

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"The Board of Governors of the Federal Reserve System approves the application of the 'Rye Trust Company', Rye, New York, 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 Directors 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 Superintendent of Banks for the State of New York for his information.

"Standard condition of membership numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice in so far as the condition applies to funds which are given statutory preference in the State of New York.

"It has been noted that you are of the opinion that it would be in violation of Section 32 of the Banking Act of 1933 for Mr. C. S. Lutkins to continue as a director of the bank and as a partner in the firm of R. W. Pressprich & Co. after the bank's admission to membership. It is assumed that you will follow this matter."

Letter to the board of directors of the "Security Bank and Trust Company of Philadelphia", Philadelphia, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 6 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 Philadelphia.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to act as surety in certain circumstances. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will

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"be necessary under condition of membership numbered 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, together with a letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Security Bank and Trust Company of Philadelphia', Philadelphia, Pennsylvania, 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 Directors 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 Secretary of Banking for the Commonwealth of Pennsylvania for his information.

"Since the amount of losses classified in the report of examination for membership is relatively small, the usual condition regarding the elimination of losses has not been prescribed. It has been noted, however, that the bank is to make the charge-off prior to admission to membership.

"It has been noted that the bank has agreed to reduce its substantial investment in the stock of another bank to an amount not in excess of 10 per cent of its own capital and surplus. The Board has frequently expressed the opinion that corporate stocks are not desirable investments for banks and, with respect to this situation, feels that a program of orderly liquidation of the entire stock holding would be in accordance with conservative banking policy."

Telegram to the Presidents of all of the Federal Reserve Banks

reading as follows:

"Reg. W-90. The classification 'cooking stoves and ranges with less than seven heating surfaces' does not include cooking and baking equipment that is clearly designed for commercial use and not suitable for use in households,

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"even though having less than seven heating surfaces. A cooking stove or range or oven, which is designed for commercial use in restaurants and hotels, and which has a single or continuous heating surface or heating unit, is not included. A deep-fat fryer designed for such use is not included."

Approved unanimously.

Letter to Mr. Harris, Director of the Federal Reserve Bank of Atlanta, reading as follows:

"The statements contained in your letter of September 19, which was acknowledged on September 26, regarding the expenses and earnings of the Federal Reserve Bank of Atlanta have had careful consideration by the Board. The situation discussed in your letter is of major importance and has had the attention of the Board for some time.

"It is clear that expanding activities of the Federal Reserve Banks, such as those entailed by Regulation W, the increase in the volume of checks handled due to the growth in business activity, and the increased demand for currency are necessarily increasing the Reserve Banks' expenses. Whether some of the free services of the Federal Reserve Banks could be discontinued or whether the Banks should increase their earnings by levying service charges or by other means, is a matter which has received considerable study. For your information in this connection I am enclosing copies of three memoranda, dated July 28, July 31 and September 26, respectively, from Mr. Smead to Governor Szymczak. You will note from the memorandum of July 31 that three methods of dealing with the situation are discussed: (1) deferring the payment of 6 per cent cumulative dividend, (2) asking for reimbursement for certain services now rendered free to the Treasury, and (3) discontinuing certain free services rendered member banks, or making a service charge to cover their cost.

"In the memorandum dated September 26 it is pointed out that expenses are increasing much more rapidly than was foreseen at the earlier date and that for the year 1941 earnings are likely to be slightly less than current expenses and dividends, but that the profits received on sales of U. S. Government securities are expected to be sufficient to about offset this deficiency. The memorandum

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"of September 26 was read to the Presidents' Conference, held in Washington on September 28, and it is understood that the matter was subsequently discussed by the Presidents during their Conference. It is apparent that this is a subject which will have to have the continued and careful study of the Board and the Banks.

"The Board of Governors sees no reason why the Federal Reserve Banks should not, over short periods, operate at a deficit when conditions are such as to result in earnings inadequate to cover expenses and dividends. Just how long such a condition can be permitted to continue, of course, depends upon various factors, including the amount of the deficit and the Banks' surplus and reserves for contingencies.

"What changes, if any, can be made in operating practices to bring about a reduction in expenses is a matter to which the Board feels each Federal Reserve Bank should give careful and constant attention. At the request of the Board of Governors, the Chairman of the Presidents' Conference appointed a committee to work out a 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. The committee recently submitted its report in which it estimates that if the plan recommended by it with respect to the bankers' blanket bond and registered mail and express insurance were adopted, it would result in a saving in excess of \$250,000 annually. A comparison by a Federal Reserve Bank of its expenses with like expenses of other Federal Reserve Banks, as set forth in the functional expense reports, should be helpful in bringing to light the particular functions in which other possible savings may be effected.

"It is hoped that the managements of all Federal Reserve Banks will give this subject serious consideration and that some worthwhile suggestions will be presented for discussion at the next Presidents' Conference."

Approved unanimously.

Letter to Mr. Crause, Director of the Instalment Credit Division of the Federal Reserve Bank of St. Louis, reading as follows:

"Your letter of October 4 and the correspondence

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"concerning the misuse of Regulation W, as reported to you by the Gillioz Bank and Trust Company of Monett, Missouri, has been read with interest.

"We believe that you have handled the matter in an entirely appropriate way and will be glad to learn the results."

Approved unanimously.

Letter to Mr. Crowder, General Manager-Treasurer of the National Retail Credit Association, St. Louis, Missouri, reading as follows:

"This is in answer to your letter of October 10 and with further reference to your letter of September 10.

"The administration of Regulation W, as you know, is decentralized among the several Federal Reserve Banks and their branches. This is in accord with the decentralizing policy of the Board of Governors of the Federal Reserve System.

"According to present arrangements, each of the Reserve Banks has a large amount of freedom in determining how it will proceed in administering the regulation. They are naturally in contact with all the different classes of vendors and lenders subject to the regulation, including numerous trade associations — not only local associations but such national associations as happen, in the given instance, to have their head offices in the given Federal Reserve district.

"Suggestions have been received, not only from your organization but also from others, to the effect that each Reserve Bank should have a committee of some kind to act in an advisory capacity. As to this, the Board has taken no position. The matter is being left, for the present at least, to each Federal Reserve Bank.

"For these reasons, and since your headquarters are at St. Louis, your suggestion should be first presented to that Bank. A copy of this letter is being sent, for his information, to Chester C. Davis, President, Federal Reserve Bank of St. Louis.

"The Board, as well as the Federal Reserve Banks, is very glad to receive any suggestions from your organization, as well as from other sources, for improving

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"the content or administration of Regulation W."

Approved unanimously.

Mr. Draper suggested that the Board authorize the payment of the cost of luncheons served in the Board's dining room today to Mr. Thomas W. Gates, Defense Coordinator for the Philadelphia District, and Mr. Orville Bullitt, his assistant.

Approved unanimously.

Memorandum from Mr. Nelson, Assistant Secretary, requesting, at the suggestion of the Chairman's Office, that the Board authorize the continuance for the balance of the month of October of the temporary employment of Arthur Norris, messenger, it being understood that Norris would continue to be attached to the Chairman's Office during the temporary period.

Approved unanimously.

Thereupon the meeting adjourned.

Arthur Norris  
Secretary.

Approved:

W. Steele

Chairman.