

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 24, 1941, at 11:00 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations

There were presented telegrams to Messrs. Sanford and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, 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 Kansas City on October 18, by the Federal Reserve Bank of San Francisco on October 21, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on October 23, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

10/24/41

-2-

Chairman Eccles stated that he had received a letter under date of October 23, 1941, from Mr. Henderson, Administrator of the Office of Price Administration, stating that that office was faced with numerous problems concerning the relation between tax and price policies and requesting that the Research Division of the office be given the benefit of consultation from time to time with the Fiscal and Monetary Section of the Board's Division of Research and Statistics.

It was understood that Chairman Eccles would advise Mr. Henderson that the Board would be glad to make the arrangement suggested by him.

There was presented the following letter dated October 16, 1941, from Messrs. Gardner and Vest, members of the mission sent to Havana in connection with developing legislation to establish a central bank in Cuba. Copies of the letter were sent to the offices of the members of the Board before this meeting:

"Members of the mission here are at present engaged in preparing preliminary memoranda in which are indicated their tentative views regarding particular aspects of this project. The first of these memoranda are now being completed.

"We have indicated to Mr. Southard our feeling that copies of these memoranda should be forwarded to the Board in order that members of its staff in the Division of Research who have been working on this subject may be acquainted with the way thought is developing here. We have in mind particularly Messrs. Weyl and Bean who were active in preparing the documentation for the mission and who sat in on all the preliminary conferences in Washington. They could continue to be helpful to us in developing their own analyses of the material we are getting

10/24/41

-3-

"and commenting upon the analyses we are preparing here. In doing so they would have the assistance of other members of the Board's Staff who might be in a position to contribute. It is possible that Mr. Goldenweiser might find time to review the situation.

"Mr. Southard is agreeable to our sending to the Board a copy of the narrative account of the activities of the mission and this we will do in a separate letter to the Board. He is also agreeable to our writing to the Board or its staff a summary statement of the principal ideas which are under consideration here. He states, however, that under the instructions given him by Mr. White he cannot consent to our sending to the Board copies of the memoranda referred to in the first paragraph of this letter.

"The matter of sending copies of these memoranda to the Board for the study of its staff is in our judgment not as important as it would be if it were sought to preclude us from reporting to the Board regarding the principal activities of the mission or from indicating in a general way the substance of the ideas under consideration. We feel that with this arrangement the necessities of the situation have in large measure been met. Nevertheless, it is our opinion that we should be free to send copies of these memoranda to the Board or its staff at the same time that they are sent to Mr. White if this can be arranged without too much difficulty. Accordingly, after reflecting upon the matter, we recommend for consideration that the subject be taken up by some representative of the Board with Mr. White in an endeavor to secure an agreement for the sending to Mr. Goldenweiser of copies of all documents which are prepared by members of the group with regard to the project and are forwarded to Mr. White. An exception might be made, if necessary, of such documents as Mr. Southard in consultation with Mr. Gardner may conclude are of an especially confidential character.

"If this recommendation should be followed and the effort prove unsuccessful, we doubt that the matter is sufficiently vital to warrant a request for any action on the part of the State Department. In such event, however, it might be well to acquaint Mr. Collado, who was mainly responsible for arranging the mission, with the facts.

"Our relations with the group down here are excellent and we should not want to see any undue pressure exerted or any ill feeling created in view of the relatively satisfactory arrangements we have worked out with Mr. Southard

10/24/41

-4-

"for keeping the Board and its staff informed. We see no valid reason, however, why copies of the memoranda being prepared here should not be furnished to the Board, enabling it to make its maximum contribution to the mission.

"We shall await the Board's advices in this matter."

In a discussion of what action should be taken by the Board, Chairman Eccles stated that, if agreeable to the other members of the Board, he would call Mr. White on the telephone and say that, in the circumstances under which the mission was created, the Board felt that it had a responsibility to discharge and, therefore, that it should receive from the mission the same information as was received by the Treasury; that if the Board was not to receive such information it would so inform the State Department and suggest that the members of the Board's staff be relieved of further participation in the mission; but that before taking any action he (Chairman Eccles) wished to discuss the matter with Mr. White to determine what procedure he proposed to follow.

There was unanimous agreement that the matter should be handled in the manner suggested by Chairman Eccles.

At this point Mr. Goldenweiser withdrew from the meeting.

Reference was made to a letter dated October 18, 1941, from Mr. Day, President of the Federal Reserve Bank of San Francisco, stating that the board of directors of the Bank had approved the payment to all employees of the Bank receiving less than \$6,000 a year, additional compensation at a rate of 6 per cent per annum on the first \$1,800 of annual salary, provided that such supplemental compensation did not increase total compensation beyond \$6,000 per annum. The

10/24/41

-5-

letter also stated that it was the unanimous feeling of the board of directors of the Bank that the limitation contained in the Board's letter of October 3, 1941, authorizing the payment of supplemental compensation to employees of Federal Reserve Banks on the first \$1,800 of salary, did not permit the Bank to meet the competitive compensation scales in the higher brackets; that it was felt that the Bank was almost certain to lose more employees in the salary range of from \$2,400 to \$4,200 per annum than in the group of employees who would be unaffected by the \$1,800 limitation; that while it was recognized that it might be possible to vary the percentage allowance, this was believed to be undesirable; and that it was the unanimous opinion of the board of directors, and it was strongly urged, that the Board of Governors could well leave to the discretion of the local boards of directors of the Reserve Banks the application of the authority within the limitation of salaries under \$6,000. The letter also stated that, if the Board of Governors did not feel it could make such an amendment in the authority granted, the board of directors of the Bank felt that the limitation of \$1,800 should be materially increased to not less than \$3,000 per annum.

Upon motion by Mr. Szymczak, it was agreed that President Day should be advised that the problems presented in his letter had been considered when action was taken by the Board on October 3, 1941, and that it did not feel that the suggestions of the board of directors of the San Francisco Bank should be adopted.

10/24/41

-6-

Mr. Wingfield, Assistant General Counsel, came into the meeting at this point.

Mr. Szymczak called attention to a letter addressed to him under date of October 13, 1941, by Mr. Peyton, as Chairman of the Reimbursable Expense Committee of the Presidents' Conference, stating that at the last meeting of the Presidents' Conference the Committee was requested to approach the Treasury for the purpose of discussing the question of reimbursement for certain operations now performed by the banks for the Treasury on a nonreimbursable basis. The letter also stated that before taking such action Mr. Peyton desired to present the matter to the Board, and if it was felt inadvisable to proceed further at this time he would reopen the matter with the Presidents' Conference. Mr. Szymczak said that on October 21, 1941, he addressed a letter to Mr. Peyton, setting forth certain problems inherent in the question of additional reimbursement by the Treasury and requesting that if, after reviewing the matter further, Mr. Peyton felt that the Treasury should be approached at this time he take the matter up with the Board again. He also stated that the question before the Board was whether it desired to take any further action in the matter at the present time.

In the ensuing discussion, Mr. McKee stated that it would be helpful if something could be prepared in graphic form which would show the volume of services rendered by the Federal Reserve Banks for the Government, including the number of checks cashed for the Army

10/24/41

-7-

and the Navy, and it was understood that the Division of Bank Operations would undertake to prepare something along these lines.

It was also stated that, before the Treasury could pay for some of the services now being handled by the banks on a nonreimbursable basis, it would be necessary to obtain authority for such payments from Congress, and all of the members of the Board indicated that they would not favor action which would raise that question at this time.

At the conclusion of the discussion, it was understood that Mr. Peyton would be advised by letter that the Board would not favor seeking reimbursement at this time in any case where authority for such reimbursement would require legislation, and that if Mr. Peyton's committee felt that reimbursement should be sought in other cases it should discuss the matter with Mr. Szymczak preparatory to a discussion by the Presidents and the Board at the time of the next Presidents' Conference.

(Secretary's note: The above action was taken on the assumption that Mr. Peyton had been appointed Chairman of the Committee on Reimbursable Expenses. However, on October 25, 1941, Mr. Fleming, President of the Federal Reserve Bank of Cleveland, sent a letter to Mr. Szymczak enclosing a copy of a letter to Mr. Peyton in which it was stated that Mr. Fleming was Chairman of the Committee and that in his opinion the present was not an opportune time to take up with the Treasury the question of additional reimbursement for the Federal Reserve Banks. In these circumstances, the letter which the above action contemplated would be sent to Mr. Peyton was not sent.)

At this point Mr. Paulger, Chief of the Division of Examinations, and Mr. Millard, Federal Reserve Examiner, entered the room.

Reference was made to a letter addressed to Mr. Szymczak by

10/24/41

-8-

Mr. Millard, as Federal Reserve Examiner in charge of examinations of Federal Reserve Banks, under date of September 27, 1941, in which reference was made to several matters in connection with the report of examination of the Federal Reserve Bank of Boston as of August 15, 1941, including a statement that the principal weakness in the official organization of the Bank was the absence of potential successors to First Vice President Paddock, who would retire at the end of his present term, and Mr. Carrick, General Counsel and Secretary, who was within three years of retirement. The letter also stated that it was difficult to see how acceptable successors could be developed from the remaining officers within the relatively short time these officers would remain with the Bank, that it would appear that the management had not been alive to the value of a program looking to the development of outstanding key employees, and that this situation had created a number of problems at the Bank.

Reference was also made to a memorandum dated October 4, 1941, from Mr. Paulger to Mr. Szymczak calling attention to the fact that the Federal Reserve Bank of Boston was the only Reserve Bank which did not obtain from its officers and employees occupying responsible positions periodic reports of their indebtedness, stockholdings in member banks, and outside business connections, as requested in the Board's letter of June 25, 1937 (S-8), and that President Young had stated at the time of the last examination of the Bank that on the occasion of his next visit to Washington he would discuss the matter with the Board.

At the request of Mr. Szymczak, Mr. Millard amplified the com-

10/24/41

-9-

ments contained in his letter with respect to the official personnel at the Boston Bank, which was followed by a discussion of what, if any, action should be taken by the Board at this time in the matter.

There was unanimous agreement that steps should be taken by the Boston Bank as promptly as possible looking toward the availability of competent successors to Messrs. Paddock and Carrick upon their retirement, and Mr. Szymczak was requested to discuss the matter with Mr. Young and advise him accordingly.

It was also understood that Mr. Szymczak would discuss with President Young the question of the discontinuance by the Boston Bank of the submission of reports by officers and responsible employees of the Bank of their indebtedness, outside business connections, and stockholdings in member banks.

Messrs. Paulger and Millard then withdrew from the meeting.

It was stated that, notwithstanding the policy that Government departments and agencies should refrain from competing for personnel, the Board recently had lost several of its employees who had been taken by other Government agencies at higher salaries, and that the question was actively before the Board whether any action could be taken by it to prevent further losses of members of its staff.

It was agreed that Chairman Eccles should talk to Mr. McReynolds, Liaison Officer for Personnel Management in the Office of the President, on the telephone to see what, if anything, could be done in the circumstances.

There was then presented a letter dated October 21, 1941, from Mr. Sproul, Chairman of the Legislative Committee of the Presidents'

10/24/41

-10-

Conference, in which he referred to the Board's letter of October 11, 1941, relating to the replies of the Federal Reserve Banks to the Wagner questionnaire, and inquired whether it would be possible for the Legislative Committee to meet with Mr. Ransom or the Board during the first half of November.

It was agreed that Mr. Sproul be advised by letter that the matter would be taken up with Mr. Ransom upon his return to the office.

Mr. Draper presented a letter received by him yesterday from Mr. Knudsen, Director General of the Office of Production Management, reading as follows:

"In the absence from the city of Mr. Floyd Odlum, Mr. Walter H. Wheeler, Jr., of Division of Contract Distribution, has brought to my attention the dilemma in which his division finds itself in connection with the payment of salaries of employees and other expenses of the fifteen newly created field offices of the Division of Contract Distribution.

"It is my understanding that the Board of Governors hesitates to request the appropriate Federal Reserve Banks to make these payments because they do not clearly come within the scope of the agreement as outlined in my letter of April 16, 1941.

"I fully appreciate your position, nevertheless it is vitally important that means be found at once to pay the employees and other expenses of these newly created field offices. I, therefore, trust that you will waive whatever doubts there may be in this respect and that you request the appropriate Federal Reserve Banks to care for the situation on a temporary and emergency basis through November, 1941.

"I can assure you that every effort is being made to transfer as rapidly as possible all field expenses of the Division of Contract Distribution, including the salaries of approximately five hundred employees, to the regional offices of the OPM. It may be that this arrangement can be effected before December 1, 1941. Machinery for accomplishing this has already been set in motion.

10/24/41

-11-

"You will appreciate the extreme urgency for prompt action on this question in order to prevent disruption of the field operations of this important division. Your cooperation will be greatly appreciated."

Mr. Draper also presented a draft of reply to Mr. Knudsen's letter, and in the ensuing discussion it was stated that the funds from which the Federal Reserve Banks would be reimbursed for the expenses paid by them pursuant to Mr. Knudsen's letter were already available to the Office of Production Management and could legally be used for that purpose, and that any payments made by the Banks would be only on proper certifications by the coordinators in the respective field offices of the Division of Contract Distribution, who were authorized to make such certifications.

Upon motion by Mr. Draper, the reply to Mr. Knudsen was approved unanimously as follows:

"This will acknowledge receipt of your letter of October 23, in which you point out the dilemma in which the Division of Contract Distribution finds itself in connection with the payment of salaries of employees and other expenses of the fifteen newly created field offices of that Division. You ask the Board to request the Federal Reserve Banks to pay the employees and other expenses of the fifteen newly created field offices on a temporary and emergency basis through November 30, 1941. It is understood, from your letter, that not later than that date all field expenses of the Division of Contract Distribution will be transferred to the regional offices of the Office of Production Management and that the Federal Reserve Banks will not be asked to pay such expenses after that date.

"As officials of the Division of Contract Distribution have been previously advised informally, the Board, in addition to the reason set forth in your letter, has been reluctant to request the Federal Reserve Banks to function in this matter because there is considerable doubt as to whether they have any legal right to compensate, even on a reimbursable basis, persons employed by and subject to

10/24/41

-12-

"the direction of other agencies and over whom the Federal Reserve Banks have no control. However, in view of the extreme urgency for prompt action in this matter, as pointed out in your letter of October 23, the Board will request the Federal Reserve Banks to render, on a temporary and emergency basis, the services requested until November 30, 1941, or such earlier date as the necessary machinery is set up to transfer all field expenses to the Office of Production Management. This is with the understanding, of course, that the Federal Reserve Banks will be reimbursed by the Office of Production Management for all expenses paid or incurred in this connection out of funds now available to your office.

"Will you kindly confirm the above arrangement and understanding? It will be appreciated if you will include in your reply advice as to the locations of the fifteen field offices heretofore referred to in order that we may advise the Federal Reserve Banks promptly."

Mr. Bethea referred to a letter dated October 22, 1941, from Mr. Lichtenstein, Secretary of the Federal Advisory Council, requesting a list of the topics which the Board would like to have the Council discuss at its next meeting on November 16-18, 1941.

It was agreed unanimously that Mr. Lichtenstein should be advised that the Board has no topics to suggest at this time.

At this point Messrs. Wyatt, Smead, and Wingfield 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 October 23, 1941, were approved unanimously.

Memorandum dated October 20, 1941, from Mr. Nelson, Assistant Secretary, recommending that, upon the termination of her temporary appointment on November 7, 1941, Mrs. Jessie A. Sexton be appointed

10/24/41

-13-

on a permanent basis as a telephone operator in the Service Functions of the Secretary's Office, without change for the time being in her present salary at the rate of \$1,260 per annum, subject to her passing satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated October 23, 1941, from Mr. Paulger, Chief of the Division of Examinations, submitting the resignation of John T. Boysen as an Assistant Federal Reserve Examiner in that Division, to become effective as of the close of business on October 22, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"As requested in your letter of October 20, 1941, the Board of Governors approves the payment of a salary to Mr. John T. Boysen, Secretary to Mr. Koppang, First Vice President, at the rate of \$2,896 per annum, which amount is \$396 in excess of the maximum annual salary provided in the personnel classification plan of your Bank for this position."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Referring to your letter of October 17, 1941, the Board of Governors approves the payment of a salary to Mr. Loren B. Allen, Manager, Credit Department, at the rate of \$6,000 per annum for the period November 1, 1941, to March 31, 1942, as fixed by the Bank's board of directors."

Approved unanimously.

10/24/41

-14-

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors approves the change in the personnel classification plan of your Bank as requested in your letter of October 16, 1941."

Approved unanimously.

Letter to the board of directors of the "Phillipsburg Trust Company", Phillipsburg, New Jersey, 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. Within six months from date of notice by the Board of Governors, such bank shall discontinue the arrangement under which the Warren County Building and Loan Association receives payments and transacts other business in the quarters of the bank."

The letter also contained the following special comment:

"It appears that the trust company 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 powers to act as surety and to guarantee real estate titles. 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 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.

"As indicated by condition of membership numbered 7, the Board believes that it is not a desirable situation where the business of another financial institution is

10/24/41

-15-

"transacted in the quarters of a bank. As far as the public is concerned, the true relationship between the two institutions is often unknown and confusing and in the event of difficulties of either institution the situation might result in serious embarrassment to both."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Phillipsburg Trust Company', Phillipsburg, New Jersey, 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 Commissioner of Banking & Insurance for the State of New Jersey for his information.

"The applicant institution is definitely a problem bank; in fact so much so as to raise a serious question as to whether the application should be approved, but in informal discussions with members of the Board's staff Mr. Gidney and Mr. Sheehan expressed themselves as being confident that the situation will be worked out and that the bank is entitled to membership. It has also been noted in this connection that the supervising examiner for the F.D.I.C. feels that sufficient progress has been made to lead him to believe that the remaining problems can be solved provided the management maintains a satisfactory attitude toward the problems.

"In view of all the circumstances the application has been approved, but with the distinct understanding that the Reserve Bank will follow the case closely and give the bank unusually careful supervision. It is requested that within a reasonable time a follow-up investigation be made to see whether the management is taking full advantage of the improvement in local business conditions to dispose of its real estate holdings, and it might be well if the bank were requested to file periodic progress reports until the ultimate solution of the problem seems more definitely assured.

"According to the information transmitted with Mr.

10/24/41

-16-

"Gidney's letter of October 22, the bank has secured the release of the accumulation in the preferred stock retirement account and has made chargeoffs and set up valuation reserves in a total amount in excess of the losses classified in the report of examination for membership. Therefore, and in accordance with the suggestion contained in Mr. Gidney's letter, the usual condition regarding the elimination of losses has not been prescribed.

"It is assumed that the Reserve Bank will follow the matter of designating a trust committee and providing for adequate supervision of the activities of the trust department."

Memorandum dated October 22, 1941, from Mr. Carpenter, Assistant Secretary, submitting a request from The Conestoga National Bank of Lancaster, Lancaster, Pennsylvania, for a copy of the permit issued by the Board to the bank to exercise trust powers. The memorandum stated that while the minutes of the Board were incomplete with respect to the powers granted to the bank on August 27, 1918, it was clear from the remaining records of the Board that the bank had been granted the powers in question, and that, therefore, it was recommended that the letter and certificate attached to the memorandum be approved for transmission to the bank.

Approved unanimously.

Letter to Mr. Hays, Vice President and Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of October 15 asking a question regarding insurance charges in connection with an extension of credit under section 5(a)(1) of Regulation W.

"The question is whether the cost of insurance must

10/24/41

-17-

"be included in the amount lent to the obligor in determining whether that amount exceeds the maximum provided by section 5(a)(1).

"The example which you give is as follows: The basis price of an automobile is \$300 and the maximum credit value is \$200. The insurance on the automobile costs \$20. May the seller extend credit in an amount equal to \$200, plus \$20, plus interest or finance charges?

"Section 5(a)(1) provides that the 'principal amount lent to the obligor (excluding any interest or finance charges, and the cost of any insurance) shall not exceed the maximum credit value of the listed article * * * .' The cost of insurance should therefore be excluded in determining whether the principal amount exceeds the maximum credit value, and the above question should be answered in the affirmative. The Regulation attempts, in section 4 and in section 5(a)(1), to place the seller and the lender on as nearly an equal footing as possible. Section 4(a) provides that the deferred balance shall not exceed the maximum credit value, and section 4(f) provides that the deferred balance shall not include 'any insurance premium for which credit is extended' nor 'any finance charges or interest'."

Approved unanimously.

Letter to Mr. Hodge, Assistant Counsel of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of October 14 enclosing a copy of a letter dated October 11 from Mr. L. Shirley Tark containing questions relating to section 3(a)(2)(B) and section 7 of Regulation W.

"Mr. Tark says that his bank purchases automobile paper from certain finance companies, and loans money to other finance companies on the security of automobile paper. His first question, which relates to section 3(a)(2)(B), arises from the fact that the statement of the transaction is often not attached to the obligation with the result that his bank is not able to determine definitely whether the obligation complied with the requirements of the Regulation. However, the Registrant is not required to ascertain at his peril whether the obligation in fact complied with the Regulation. Section 3(a)(2)(B)

10/24/41

-18-

"merely provides that if the obligation 'showed on its face' some failure to comply with the Regulation, or if the Registrant 'knew any fact' by reason of which it failed to comply, the Registrant may not receive payment. Therefore it is sufficient if, at the time the obligation was acquired by the Registrant, the obligation did not show on its face that it did not comply and the Registrant did not know any fact by reason of which the obligation did not comply. If the Registrant knew that the price of the article was less than sufficient to support the amount of credit extended, he 'knew' a fact within the meaning of section 3(a)(2)(B), but the question whether he 'knew' is a question which, of course, depends upon the circumstances of the particular case.

"Mr. Tark's second question relates to the apparent conflict between section 7 of the Regulation, which provides that noncompliance with the provisions of the Regulation shall not affect the right to enforce a contract, and section 3(a) which provides that a Registrant may not receive any payment which arises out of an extension of credit if (in the case of 3(a)(2)(B) for example) the Registrant 'knew' any fact by reason of which the extension of credit giving rise to the obligation failed to comply with the Regulation. Were it not for section 7 a Registrant might be prevented from recovering upon an obligation merely because he had failed to register before December 31, 1941, or from recovering upon an obligation which he had discounted in spite of the fact that at the time he discounted it he did not know that it failed to comply with the requirements of the Regulation. Section 3(a)(2)(B) does not prevent him from recovering on any contract which fails to comply, but merely provides that if he actually knew that the obligation failed to comply he cannot receive payments in the face of this guilty knowledge. Section 3(a)(2)(B) does not add the further test 'or had reason to know' except to a limited extent in the case of an obligation which shows on its face some failure to comply, as, for example, a 20-months contract covering the sale of an automobile.

"Regarding Mr. Tark's last question, you are being advised, in connection with the letter of The First National Bank of Chicago, that the Board agrees with your view that the time as of which section 3(a)(2)(B) speaks and the time when rights become fixed, is the time when the Registrant purchases or discounts the obligation or

10/24/41

-19-

"the time when the obligation is accepted as collateral."

Approved unanimously.

Letter to Senator Arthur Capper reading as follows:

"We have read with interest and sympathy the letter of Mr. Ed Marling, Topeka, Kansas, which you enclose with your letter of October 14. Mr. Marling's letter is returned.

"The conditions of which Mr. Marling speaks are not, it seems to us, solely the result of the requirements of Regulation W. They result from a situation in which normal peacetime activities are interrupted and in which it is inevitable that sacrifices must occur. Regulation W is undoubtedly having the intended effect of dampening the demand for articles of which a shortage is either present or impending, but it is to be pointed out that the shortage itself is the basic condition. The purpose of Regulation W is not to aggravate the hardship arising from shortage but to alleviate it by hindering inflationary price advances.

"The Board is earnestly concerned to make the regulation as equitable as possible and is giving constant attention to its effects. One amendment has already been made and it is anticipated that others will follow. This should not be taken as an indication that the situation of which your constituent complains will be ameliorated by the changes, but we hope it will be taken as evidence of the study and care with which the Board is endeavoring to discharge its responsibility."

Approved unanimously.

Letter to Mr. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of October 14, 1941, in which you request an expression of the Board's views with regard to an affiliate question raised by one of your examiners.

"It appears that a national bank has during the past several years made loans to a realty company and

10/24/41

-20-

"also to a subsidiary company owned by the first company. In order to obtain additional protection against loss on loans to both concerns, the bank acquired from the first company approximately 80 per cent of the outstanding stock of its subsidiary as additional collateral and as a result such subsidiary became an affiliate of the bank. Your examiner inquired whether advances to this affiliate are exempted from the provisions of section 23A of the Federal Reserve Act by the provision in section 23A which makes the requirements of that section inapplicable to an affiliate 'where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship'.

"The Board has not heretofore had occasion to make a ruling on a question of this kind but it would appear that in view of the circumstances described the affiliate would clearly come within the provisions of the exemption quoted above.

"The above exemption was enacted by Congress in the Banking Act of 1935. We have been unable to find any statements in the legislative history of this Act relating to this exemption. However, an identical provision was contained in the omnibus banking bill of 1934 but was not enacted into law at that time, and it is of interest to note that the Committee on Banking and Currency of the Senate, in its Report No. 1260, made the following statement with regard to this provision:

'Section 14: This amends section 23A of the Federal Reserve Act, which prescribes certain limitations and conditions on loans by member banks to their affiliates.

'Subsection (a) exempts from such limitations and conditions loans where the affiliate relationship has arisen out of a bona fide debt contracted prior to the creation of the relationship. The object of this amendment is to avoid the severe loss that may be occasioned by banks under the present law where they control an affiliate through having obtained its stock by foreclosure or otherwise in satisfaction of a previously contracted debt. It is frequently found necessary to advance funds to such an affiliate either for the purpose of continuing its operation or of assisting its liquidation, so as to salvage the real value

10/24/41

-21-

"out of the assets and reduce or avoid loss by the bank on the debt which had been secured."

"While the situation described in this report is not precisely the same as that described by your examiner, it is believed that the exemptive provision is broad enough to include the case described by your examiner."

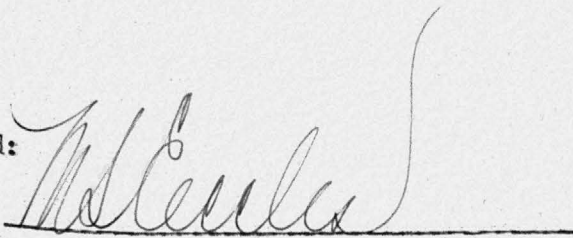
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.