

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 30, 1941, at 11:30 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

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 29, 1941, were approved unanimously.

Memorandum dated October 28, 1941, from Mr. Parry, Chief of the Division of Security Loans, recommending that the Board authorize the temporary assignment for a period of not to exceed six months from November 3, 1941, of Thomas H. Hodgson, Assistant Counsel of the Federal Reserve Bank of Minneapolis, to the staff of the Division of Security Loans as Administrative Assistant to Mr. Parry, and the reimbursement of the Federal Reserve Bank of Minneapolis, upon the submission of monthly vouchers, for (1) Mr. Hodgson's salary for the period at the rate of \$5,500 per annum, (2) the Bank's usual contributions for the period to the Retirement System on his behalf, (3) a per diem allowance totaling \$240 per month to cover his living expenses during the period, and (4) his actual necessary travel expenses between Minneapolis and Washington in accordance with the Board's travel regulations. The memorandum recommended further that the "Miscellaneous"

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item in the 1941 non-personal budget of the Division of Security Loans be increased by the amount necessary to cover the payments referred to above for the remainder of this year.

Approved unanimously, together with the following letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis:

"We have received your letter of October 25, regarding the use by the Board of the services of Mr. Thomas H. Hodgson, Assistant Counsel of your Bank.

"The arrangement outlined in your letter has been approved by the Board, and you are requested to make the payments accordingly, it being understood that the Board will reimburse your Bank therefor against monthly vouchers to be submitted to it.

"The Board appreciates your part in the arrangement for the use of Mr. Hodgson's services and joins with you in hoping that it works out to the complete satisfaction of all concerned."

Memorandum dated October 28, 1941, from Chairman Eccles, recommending that, inasmuch as the work done during his recent trip to London by Alvin Hansen, who is employed on a part-time basis as Special Economic Adviser in the Division of Research and Statistics, was along the lines of the studies being made by him for the Board of Governors, he be regarded as being on official business of the Board during the trip, which would permit his being compensated at the rate of \$50.00 per day for the period of his absence in accordance with the terms of his employment approved by the Board on September 19, 1940.

Approved unanimously, with the understanding that the budget for personal services of the Division of Research and Statistics would be increased by the amount necessary to cover the payment to Mr. Hansen.

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Telegram to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Board approves appointment of Paul Wright, Jr., as an examiner for the Federal Reserve Bank of Cleveland and appointments of Howard Blake and Robert E. Ross as assistant examiners. Please advise us of the effective dates."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of October 27, in which you state that your Executive Committee and Discount Committee, meeting in common session, adopted a resolution providing that effective November 1, 1941, all permanent and temporary employees at the Head Office and the Helena Branch, with the exception of officers and subject-to-call employees, will receive salary increases of \$10 a month. You state that this action was taken in consideration of two factors, (1) consideration of the point of view of the Board of Governors which indicated the Board was not entirely sympathetic to supplemental compensation or allowance based on any index of cost-of-living, because of its implied contribution toward the spiral of inflation, and (2) all the larger banks in Minneapolis are about to install increases of approximately eight per cent on that portion of the salaries of all employees up to \$2,500, as permanent salary increases, and to increase salaries up to \$960, \$10 a month.

"With respect to point (1), the Board, in authorizing the payment of additional compensation, adopted the principle agreed upon with the Presidents' Conference Committee that the action taken by the Board should not be precise or too restrictive but should seek to establish limitations within which each Bank might work out its own program. The 10 per cent limitation approved by the Board for additional compensation is somewhat more liberal than had been suggested and within that limitation your Bank could give to its employees as additional compensation approximately the

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"same benefits as the Minneapolis banks are about to provide for their employees, the difference being that the increases provided by the Minneapolis banks would be permanent whereas those that could be provided under the Board's authorization of October 3 would be subject to change at any time.

"Since the action taken by the Board was after consultation with the Presidents, and since the Presidents in their Conference were nearly unanimous in the view that any general increase at this time should be in the form of additional compensation rather than additions to basic salaries, the Board hopes that upon reconsideration your Bank will decide to follow in principle the plan adopted, or to be adopted, at all other Federal Reserve Banks. This, of course, does not change in any way the existing practice of making increases in individual salaries where merited.

"Consideration has been given to the increases in the maximum salaries provided in the Personnel Classification Plan, Form A, for certain positions in the Bank, as submitted in Mr. Powell's letter of October 21, and we shall write you under separate cover with respect thereto."

Approved unanimously, together with
a second letter to Mr. Peyton reading as
follows:

"This refers to Mr. Powell's letter of October 21, in which he submitted a list of proposed changes in maximum salaries for a number of the positions covered in the Personnel Classification Plan, Form A.

"The changes recommended in Mr. Powell's letter have had careful consideration, and the Board has approved certain of the changes as shown in the attached statement. The other changes recommended seem to be out of line with maximums heretofore approved for other Federal Reserve Banks for similar positions, and the Board has deferred action thereon until such time as we have an opportunity of discussing them with you. Since the maximums provided in the Personnel Classification Plan are for positions rather than for individuals, it is important that the maximums be kept at a level commensurate with the work to be performed. If, however, because of special conditions, you wish to increase the salary of an employee

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"above the maximum shown in the Personnel Classification Plan for the position occupied, the Board will give prompt consideration to such recommendation as you may wish to submit. Since supplemental compensation authorized in the Board's letter of October 3, 1941, is not to be considered as part of basic salary, such payments may, of course, be made without regard to the present maximums shown in the Personnel Classification Plan.

"With respect to flexibility in the transfer of senior clerks from one department to another to take care of the rapidly growing volume of work, mentioned in Mr. Powell's letter, under the instructions relating to the operation of the Personnel Classification Plan (B-315) an employee may be temporarily assigned (for a period not exceeding six months), without reduction in salary, to a position calling for a lower maximum salary than the employee is receiving without securing the Board's prior approval."

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

"This refers to your letter of October 18, 1941, with respect to supplemental compensation for the employees of your Bank.

"The Board's action authorizing the payment by the Federal Reserve Banks of additional compensation to their employees was taken after consultation with the Chairman of a special committee of the Presidents' Conference and after consideration of all phases of the problems brought to its attention including the one referred to in your letter. In taking this action, the Board gave special consideration to a suggestion of the Presidents' Conference committee that, since all of the Reserve Banks did not have exactly the same problem or the same view as to how the problem should be met, the principles agreed upon should not be precise or too restrictive but should seek to establish limitations within which each Bank might work out its own program. Recognizing the situation with respect to employees receiving between \$1800 and \$3000 or so, the Board felt that at the present time the limitations set in its letter of October 3, 1941, were as flexible and as liberal as were warranted by existing conditions. This action, of course, does not prevent any Bank from making salary adjustments in individual cases when merited.

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"In these circumstances, the Board is of the opinion that for the time being it should not broaden the authority granted to the Banks in either of the respects suggested in the last paragraph of your letter."

Approved unanimously.

Letter to the board of directors of the "Alger Savings Bank", Alger, Ohio, stating that, subject to conditions of membership numbered 1 to 3 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 Cleveland.

Approved unanimously for transmission through the Federal Reserve Bank of Cleveland.

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

"Reg. W-107. In response to several inquiries regarding W-47, the Board said that an ordinary bank loan evidenced by a promissory note repayable in full at maturity is not subject to Regulation W, even though the bank may anticipate that at the maturity of the note it may accept a partial payment and a renewal note for the balance; provided the bank makes no commitment to do so and the transaction is entered into in good faith and not as a means of avoiding or evading the Regulation."

Approved unanimously.

Letter to Mr. Gilmore, Assistant Cashier of the Federal Reserve Bank of St. Louis, reading as follows:

"Your letter of October 22, 1941, asks whether loans secured by tax bills, apportionment warrants and warrants evidencing special tax assessments come within the exemption in section 6(a) of Regulation W for 'any extension

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"of credit which is secured by a bona fide first lien on improved real estate duly recorded'.

"As indicated in W-26, the first lien referred to in section 6(a) is a first lien created by agreement of the parties at the time of or as an incident to the extension of credit, and it does not include a lien which arises by operation of law independently of such an agreement. W-26 related to laborers' and materialmen's liens arising by operation of law without such an agreement, but the same principle applies to liens that arise in this manner under statutes regarding tax assessments and similar levies. For example, W-25 states that a first mortgage is a 'first lien' under section 6(a) even though a prior lien for current taxes not due and payable exists under State law.

"You also ask whether the exemption in section 6(a) would apply if the holder of a first mortgage paid the apportionment warrants levied against the mortgaged property and added the amount to the lien.

"The answer would depend upon how the transaction was handled. As stated in W-30, the exemption would not apply if there were two separate mortgages. On the other hand, the exemption would apply if the two transactions were combined into a single debt secured by a single first mortgage on improved real estate duly recorded."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. John H. Fahey, Chairman of the Federal Home Loan Bank Board, reading as follows:

"I have your letter of October 21, 1941, regarding the application of Regulation W to the Federal Savings and Loan Insurance Corporation.

"You state that the primary function of the Corporation is to insure certain individual accounts in institutions of the savings and loan type, but that, in some instances, upon default of an insured institution, the Corporation is appointed as conservator or receiver and is authorized as such (1) to take over the assets of and operate such associations, (2) to take such action as may

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"be necessary to put it in a sound and solvent condition, (3) to merge it with another insured institution, (4) to organize a new federal savings and loan association to take over its assets, or (5) to proceed to liquidate its assets in an orderly manner, whichever shall appear to be in the best interest of the insured members of the association.

"The powers enumerated above are those given by the statute (12 U.S. Code 1729), but I understand that the power referred to under (1) to take over the assets of and operate an association has not actually been exercised by the Corporation in any case to the extent of continuing the ordinary business operations of the association, but, on the contrary, that the Corporation has merely taken over the assets and held them pending reorganization, merger, liquidation or one of the other steps enumerated above. With respect to the power referred to under (5) above, the Board of Governors is of the opinion that Regulation W is not applicable to a receiver engaged in liquidating the assets of an organization, and since it appears that none of the other courses of action enumerated above would result in the Corporation's being engaged in the business described in section 3 of Regulation W, it appears that the Corporation is not subject to its provisions."

Approved unanimously.

Letter to Senator Tom Connally, reading as follows:

"We have received your communication of October 20, with which was enclosed a letter addressed to you on October 10 by the Monnig Dry Goods Company of Fort Worth, Texas.

"The licensing provisions of the Board's Regulation W, to which your constituent objects, appear in section 3 of the regulation, a copy of which is enclosed. The purpose of the license is to facilitate the administration of the regulation and to make more effective its enforcement. Generally speaking, the regulation has been favorably received by the persons subject to it, and its provisions have been regarded as fair and equitable. It is to be expected, in the Board's opinion, that there will be little occasion for the suspension of a license

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"by the Board, but the power to suspend a license is considered to be an important part of the control which the regulation seeks to institute.

"We trust that this report is an adequate response to your communication.

"In accordance with your request, we are returning to you herewith the Monnig Dry Goods Company letter."

Approved unanimously.

Memorandum dated October 27, 1941, from Mr. Paulger, Chief of the Division of Examinations, recommending, for the reasons stated in the memorandum, that \$50.00 be added to the item of Postage and Expressage in the 1941 non-personal budget of that Division.

Approved unanimously.

It was suggested that the Board authorize the payment of the cost of luncheons served in the Board's dining room on October 28 to Dr. Ernest M. Fisher, Director of Research in Mortgage and Real Estate Finance for the American Bankers Association, and on October 29, 1941, to Mr. J. Harvie Wilkinson, Jr., Vice President of the State-Planters Bank & Trust Company, Richmond, Virginia, who addressed sessions of the conference of Federal Reserve examiners held on those respective dates.

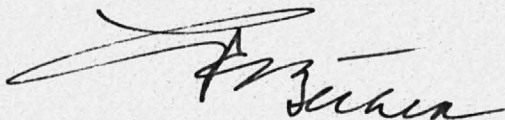
Approved unanimously.

Mr. Szymczak recommended that the salary of Mrs. Ethelda M. Bultman, stenographer in his office, be increased from \$2,200 to \$2,400 per annum and that her designation be changed from stenographer to assistant private secretary, both effective November 1, 1941.

Approved unanimously.

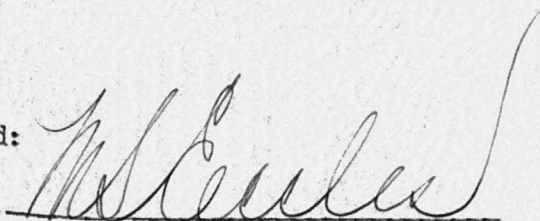
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Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.