

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 5, 1941, at 10:30 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
Mr. Wyatt, General Counsel

There was presented a letter dated November 3, 1941, from C. Thorpe, Class C director of the Federal Reserve Bank of San Francisco, whose term would expire on December 31, 1942, stating that because of increasing demands upon his time by his business it would not be possible for him to spare the time necessary to continue to serve as a director of the Reserve Bank and that, therefore, he was submitting his resignation as a Class C director, effective at the convenience of the Board but not later than January 2, 1942.

The resignation was accepted with regret, effective at the close of December 31, 1941, and the Secretary was requested to advise Mr. Thorpe and the Chairman of the Federal Reserve Bank of San Francisco by letter of the Board's action.

Chairman Eccles stated that, in accordance with the action taken at the meeting of the Board on October 24, 1941, he called Mr. White, head of the mission which was sent to Cuba to assist in developing legislation to establish a central bank in Cuba, that Mr.

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White stated that the memoranda prepared by members of the mission and sent to him as head of the mission were not being submitted to the Treasury, that when the mission's report had been prepared copies would be submitted simultaneously to the Board and the Treasury, and that nothing would be sent to Cuba until representatives of the Treasury and the Board had had an opportunity to discuss the matter.

It was agreed unanimously that, in these circumstances, no further action should be taken by the Board pending receipt of the mission's report.

Mr. Szymczak stated that Mr. Gamble, director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta, was in his office recently and that he advised Mr. Gamble that the Board had decided, because of his financial situation, not to reappoint him as a director of the Branch for a further term beginning January 1, 1942. Messrs. Eccles and McKee reviewed briefly the conversations which they had had with Mr. Gamble after his talk with Mr. Szymczak, and their comments were followed by discussion during which the members of the Board present concurred in the feeling that they should adhere to the decision previously made that he should not be reappointed as a director of the Branch.

It was agreed unanimously that at the appropriate time a letter should be sent to Mr. Gamble advising him of the Board's decision and thanking him for the services which he had rendered as a director of the Branch, and that Mr. Szymczak

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should proceed in the meantime to ascertain whether Walter J. Matherly, Dean of the College of Business Administration of the University of Florida, would accept appointment as a director of the Jacksonville Branch if the appointment were tendered.

Chairman Eccles stated that in accordance with the action taken at the meeting of the Board on October 3, 1941, he had talked with Henry F. Grady, President of the American Steamship Lines, and that the latter had indicated that he would be willing to accept appointment as Class C director of the Federal Reserve Bank of San Francisco and designation as Chairman and Federal Reserve Agent.

Mr. Szymczak stated that the Personnel Committee had discussed the question of the appointment of a Class C director of the Federal Reserve Bank of Kansas City for the term beginning January 1, 1942, to succeed J. J. Thomas, and that it was recommended that the appointment be tendered to Robert L. Mehornay, President of the North-Mehornay Furniture Company of Kansas City. Mr. Szymczak stated that Mr. Mehornay was a stockholder in a Kansas City bank and that in order to qualify as a Class C director it would be necessary for him to dispose of his stock.

Mr. Draper was requested to get in touch with Mr. Mehornay and ascertain if he would be willing to accept the appointment, if tendered, and to dispose of his stock in the bank in order to qualify as a director.

During a discussion of possible appointees to fill the vacancy on the board of directors of the Denver Branch of the

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Federal Reserve Bank of Kansas City, it was agreed that the Board should adhere to the policy followed in the past that persons holding political offices or acting as members of political party committees should not serve as directors of Federal Reserve Banks or branches.

Chairman Eccles stated that he had discussed with Henry S. Dennison, Deputy Chairman of the Federal Reserve Bank of Boston, his availability for designation as Chairman and Federal Reserve Agent at the Bank, and that Mr. Dennison had indicated he would be willing to accept the designation for a year or so. Chairman Eccles also stated that he had talked with Albert M. Creighton, Chairman of the Industrial Advisory Committee for the First District, and that, while Mr. Creighton had indicated he would not be willing to accept appointment as a Class C director of the Boston Bank, he (Chairman Eccles) would discuss the matter with him further at the first opportunity.

Mr. Szymczak expressed the opinion that, inasmuch as Messrs. Bird, Doherty, and Hurtz had indicated a willingness to accept appointments by the Board, advice to them of their appointments should not be too long delayed. In a discussion of Mr. Szymczak's comment, Chairman Eccles suggested that the availability of all proposed Board appointees to fill vacancies on the boards of directors of the Federal Reserve Banks and branches be ascertained and that the Personnel Committee submit their further recommendations with respect to appointments to be made by the Board, so that on a date to be determined

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later the Board can take action to fill all existing vacancies and to reappoint the Class C directors and directors of branches who are to be continued for another term, and so that the telegrams of advice can be sent and the announcement to the press made on all of the appointments at one time. Mr. McKee suggested that it would be desirable if a procedure could be established under which the time of action by the Board each year in connection with the appointment of directors for terms beginning January 1 of the succeeding year would be uniform.

All of the members present were in agreement with the suggestions made by Messrs. Eccles and McKee, and it was understood that the Personnel Committee would work out a procedure in accordance therewith.

It was understood also that Mr. Szymczak would write Messrs. Brainard and Caldwell, Chairmen of the Federal Reserve Banks of Cleveland and Kansas City, respectively, advising them that Messrs. Bird, Doherty, and Hurtz would be appointed directors of the Cincinnati, Pittsburgh, and Omaha Branches, respectively, that formal notice of appointment would be sent to them before the end of the year, and that if the respective Chairmen wished to advise the prospective appointees in confidence that the appointments would be made they were at liberty to do so with the understanding that the announcement would be made from Washington at a date to be determined later.

Reference was then made to a memorandum prepared under date of October 4, 1941, by Mr. Nelson, Assistant Secretary, in connection with a circular received under date of September 3, 1941, from the President

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of the United States in which he stated it was his desire that all departments and independent establishments in the Federal Government make a thorough examination of their personnel policies and practices to the end that they might be able to assure him that in the Federal service the doors of employment are open to all loyal and qualified workers, regardless of creed, race, or national origin. Inasmuch as it appeared that the principal reason for the President's request related to the employment and assignment of negroes in the Federal Civil Service, Mr. Nelson's memorandum analyzed the practice in this organization with respect to the employment of negroes and concluded with the statement that he knew of no group with respect to which any question of discrimination might be raised in connection with their employment or treatment by the Board.

A motion was agreed to unanimously that the memorandum from Mr. Nelson be accepted and filed without further action unless, following his return, Mr. Ransom should request further consideration, in view of the fact that he had been absent since the memorandum was submitted.

Mr. McKee said that he had received a letter from the President of the First National Bank of Salt Lake City, Utah, in which it was stated that for a number of years the bank had been using net rather than gross balances in reporting its reciprocal bank accounts, that the office of the Comptroller of the Currency had requested that these balances be reported on a gross basis, that the matter had been discussed

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with the Comptroller's Office, and that that office had advised that a uniform basis of reporting these balances had been agreed upon by the three Federal supervisory agencies and that any change would have to be approved by these agencies. The letter set forth reasons why it was felt the balances should be reported on a net basis and suggested that the matter be taken up with the Federal Deposit Insurance Corporation and the Comptroller's Office to see if that basis of reporting could be adopted. Mr. McKee stated that he was strongly in favor of adopting the practice of reporting reciprocal bank balances on a net basis and that he felt the matter should be taken up with the other two supervisory agencies.

The other members present concurred in Mr. McKee's position and, upon motion by Mr. Draper, Mr. McKee was authorized to discuss the matter with the Federal Deposit Insurance Corporation and the Comptroller of the Currency for the purpose of ascertaining whether they would agree to the suggested change.

Reference was made to the informal understanding had with Mr. Cravens when he left Washington on October 20, 1941, that he would be willing to come to Washington from time to time for consultations on consumer credit, and Mr. Szymczak recommended that the Board authorize the payment to Mr. Cravens of a per diem of \$10.00 while he is absent from Cleveland on these trips, and the payment of his actual necessary transportation expenses between Cleveland and Washington, and his use of official transportation requests, in connection with the trips.

Approved unanimously.

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At this point Mr. 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 November 4, 1941, were approved unanimously.

Memorandum dated November 4, 1941, from Mr. Nelson, Assistant Secretary, recommending that Mrs. Fannie A. Kramer be appointed on a permanent basis as a stenographer in the Correspondence and Publications Section of the Secretary's Office, with no change in her present salary at the rate of \$1,620 per annum, effective at the expiration of her temporary appointment at the close of business on November 27, 1941.

Approved unanimously.

Memorandum dated November 1, 1941, from Mr. Nelson, Assistant Secretary, recommending that Miss Eugenia N. Walyce (Walczkowski) be appointed on a temporary basis for a period of not to exceed six months as a junior file clerk in the Secretary's Office, with salary at the rate of \$1,260 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination, with the understanding that if her work is satisfactory during the six months' period a further recommendation will be submitted that the appointment be made permanent and her salary

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increased to \$1,440 per annum.

Approved unanimously.

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

"In view of the circumstances set forth in your letter of October 29, 1941, the Board of Governors approves the payment of a salary to Mr. Richard Major at the rate of \$4,000 per annum for the period November 1, 1941 to December 31, 1941, with the understanding that beginning January 1, 1942 his salary will be reduced to \$3,500 per annum to extend for one year during which time you will continue to seek an appropriate assignment commensurate to his salary."

Approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the changes in the Personnel Classification Plan of your Bank, as requested in your letter of October 28, 1941."

Approved unanimously.

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

"Referring your November 1 letter, Board approves, effective November 1, 1941, payment of salary of \$5,120 to Assistant Federal Reserve Agent McConnell; also, of salaries to Check Collection Department Head, Private Secretary, and Shipping Teller, at rates of \$4,620, \$2,820, and \$2,620, respectively, which rates are each \$120 in excess of salaries they are now receiving and \$120 in excess of personnel classification plan maximums. If requested, Board would approve maximum of \$3,000 for position 'Secretary to President'. Board also approves establishment of new positions 'Painter' and 'Carpenter' mentioned in your letter, each with \$1,920 maximum.

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"Board approves increases of \$120 in salaries of those guards at Minneapolis and Helena who are now receiving salaries of more than \$1,920 and \$1,680 respectively."

Approved unanimously.

Letter to the board of directors of "The Peoples State Bank of Flushing Michigan", Flushing, Michigan, 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 Chicago.

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

Letter to the board of directors of the "Iowa State Bank", Hull, Iowa, 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 Chicago.

The letter also contained the following special comment:

"It has been noted that the bank is authorized to exercise trust powers but on the date of examination for membership only one account, a corporate trusteeship, was being handled and the examiner reports that the management does not intend to solicit any new accounts. Therefore, the application has been approved on the same basis as if trust powers were not being exercised, and should the bank in the future desire to do so, other than in connection

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"with the one account now being handled, application should be made to the Board in accordance with the provisions of condition of membership numbered 1."

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

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

"Reference is made to your letter of October 21, 1941, relating to a request of the Peoples City Bank, McKeesport, Pennsylvania, for permission under the provisions of Section 24A to increase its investment in bank premises by approximately \$125,000 for the purpose of erecting an addition to the present bank building and to provide additional means of egress from the building required by the Pennsylvania Department of Labor and Industry.

"In accordance with your recommendation, the Board approves the expenditure of the approximate amount of \$125,000 subject to the condition that the bank make adequate provision for depreciation in its enlarged banking premises. However, the Board feels that the timeliness of the undertaking is open to question and assumes that the bank, in deciding to embark upon the building program, has given serious consideration to the prevailing high cost of construction work and the availability of the required materials and labor under existing conditions."

Approved unanimously.

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

"This will acknowledge receipt of your letter of October 18, 1941, enclosing correspondence with reference to the application of Regulation W to credit sales of Delco-Light Plants.

"The question of whether or not electric light plants come within Group E-1 of the Supplement to the

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"regulation has been under study for some time. The question has been found to be very difficult principally because there are some varieties of electric power plants which furnish power not only for lighting in domestic use but also for the operation of farm equipment.

"It is hoped that a ruling which will cover a number of general questions with reference to Group E-1 will be available shortly. It is planned that this will include reference to the subject of electric power plants."

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 14, 1941, regarding the application of Regulation W to Federal Home Loan Banks.

"Regulation W applies to persons 'engaged in the business' of making instalment sales of certain articles listed in the Supplement to the Regulation or in the business of making instalment loans which are secured by such articles or which although not so secured are in a principal amount of \$1,000 or less (after December 1, the figure will be \$1,500). It also applies to persons 'engaged in the business of lending on the security of or discounting or purchasing obligations or claims arising out of such extensions of credit'. However, section 9(e) provides that in the case of a loan secured by instalment obligations, the application of the Regulation is determined on the basis of the loan rather than the obligations which secure it.

"It is my understanding that the only loans made by the Federal Home Loan Banks which would come within these classes are instalment loans not secured by listed articles, and that the Banks make such loans of \$1,500 or less only on rare and isolated occasions.

"In the circumstances the Board of Governors is of the opinion that the Federal Home Loan Banks are not 'engaged in the business' described in section 3 of Regulation W, and that therefore the Regulation does not apply to them."

Approved unanimously.

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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 Federal Savings and Loan Associations.

"As you know, section 6(a) of Regulation W at present exempts from the down payment and maturity requirements of the Regulation all extensions of credit which are secured by recorded first liens on improved real estate, and after December 1 that section will also exempt all extensions of credit 'for the purpose of financing or refinancing the construction or purchase of an entire residential building or other entire structure'. Moreover, the Board of Governors has issued an Interpretation (W-92) stating that, even prior to December 1, a second mortgage given by the purchaser to the seller as part of the purchase price is not covered by the Regulation. In addition, a lender may of course take such action as it shall deem necessary for its protection in connection with any obligation which is in default and which is the subject of collection effort.

"However, the Regulation is applicable to any lender engaged in the business of making instalment loans of \$1,000 or less (after December 1 the figure will be \$1,500), and there is no exception in the Regulation which would exempt a loan by a Federal Savings and Loan Association to one of its members upon the security of his paid-up shares. For this reason the Board of Governors is of the opinion that an association engaged in the business of making such loans is subject to the requirements of the Regulation."

Approved unanimously.

Letter to Mr. William B. Henderson, Executive Vice President of the Air Conditioning and Refrigerating Machinery Association, Washington, D. C., reading as follows:

"This is with reference to your letter of October

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"24, 1941, inquiring as to the application of Regulation W to credit sales of room-unit air conditioners.

"Enclosed is a copy of Rulings W-93 and W-103 which, it is believed, will answer the questions you have asked in your letter. The store coolers to which you make reference, provided they are portable, of more than one horse power, and not used as a central point of air conditioning with duct work to convey air to points remote from the unit, would not be subject to the regulation. Central distributing systems are not subject if they are above 5 tons of refrigeration capacity."

Approved unanimously.

Letter prepared for the signature of Mr. Goldenweiser, Director of Research and Statistics, to the Presidents of all Federal Reserve Banks as follows:

"The Board has been requested by the Division of Civilian Supply of the Office of Production Management to obtain information concerning inventories at department stores by departments. This information is wanted because in recent months inventories at department stores have shown a substantial increase, and it is important to know whether stocks of certain types of products are larger than is warranted under present conditions. The Office of Production Management recognizes that the Reserve System with its existing organization for obtaining department store statistics is in a better position to secure these data than some other agency.

"Will you, therefore, request from department stores in your district figures as to dollar value of inventories by departments on October 31 this year and the corresponding date last year. We should prefer to receive end-of-month figures but, in case other fiscal periods are used by some stores or by some departments, an inventory figure as of the nearest available date between October 15 and November 14 will be satisfactory. The Office of Production Management desires the figures in as much detail as possible, but will be satisfied at this time to have inventory figures reported for the same departments for which sales are now reported. The figures should include reserve stocks and be valued at selling price or converted

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"as in our regular end-of-month stocks figures.

"We are enclosing a form for use in reporting the data to us. This form includes all departments in the standard classification list but, as indicated above, only those for which you regularly collect data are required unless, of course, you find it feasible to expand your list for this purpose. Figures should be sent to us in the form of totals for each department for all reporting stores in your district, with information as to number of stores reporting in each case and as to sales by departments for the same stores. We should like the data for October 31, 1940 and 1941 as soon as possible but not later than December 1. The reports we prepare for the Office of Production Management will be in the form of totals for each Federal Reserve district and for the country as a whole and no information concerning individual stores will be submitted.

"It is contemplated that similar information will be collected regularly at the end of each quarter. The quarterly dates of October 31, January 31, April 30, and July 31 seem to us to be well suited for this purpose, but we should be glad to have the views of the Reserve Banks and the department stores on this question. The dates could be changed in the future if others are better adapted to the stores' accounting systems or would yield more significant results.

"Please endeavor to obtain figures for as large a sample of reporting stores as is possible. If there are any important stores in your district not now reporting departmental figures on sales, they should nevertheless be asked to report departmental data for this inquiry. This might also be a good opportunity to get them to report such data regularly. These data are needed at this time by the Government and if we are not able to obtain them satisfactorily other channels will have to be used."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.