

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 2, 1941, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice 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 December 1, 1941, were approved unanimously.

Memorandum dated November 28, 1941, from Mr. Paulger, Chief of the Division of Examinations, recommending that, effective January 1, 1942, Robert J. Schoenhoff be appointed as an Assistant Federal Reserve Examiner, with official headquarters at Minneapolis, Minnesota, and with salary at the rate of \$2,500 per annum.

In accordance with the above recommendation, Mr. Schoenhoff was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the

12/2/41

-2-

direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with salary at the rate of \$2,500 per annum, all effective as of January 1, 1942.

Memorandum dated November 29, 1941, from Mr. Morrill, recommending, with the acquiescence of Mr. Goldenweiser, that Raymond J. Collier, junior economist in the Division of Research and Statistics, be transferred from that Division to the Correspondence and Publications Section of the Secretary's Office, and that his salary be increased from \$3,000 to \$3,600 per annum, both effective as of December 16, 1941.

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your letter of November 29, 1941, the Board of Governors approves the payment of a salary at the rate of \$8,000 per annum to Mr. Allan M. Black as Cashier of your Bank, for the period December 15, 1941, to March 31, 1942."

Approved unanimously.

Letter to the board of directors of "The Fidelity Bank", Durham, North Carolina, 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 Richmond:

"7. Prior to admission to membership, such bank, if it

12/2/41

-3-

"has not already done so, shall charge off or otherwise eliminate estimated losses of \$40,347.49, as shown in the report of examination of such bank as of October 13, 1941, made by an examiner for the Federal Reserve Bank of Richmond."

The letter also contained the following special comment:

"It has been noted 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 guarantee the payment of bonds. 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."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Fidelity Bank', Durham, North Carolina, 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 Banks for the State of North Carolina for his information.

"It has been noted that the bank has on deposit with a nonmember bank in Wilson, North Carolina, an amount in excess of 10 per cent of its own capital and surplus and it is assumed that the Reserve Bank will follow the matter of reducing the balance to within statutory limits. Since these banks have accounts with each other, your attention

12/2/41

-4-

"is called to the Board's ruling on the question of deduction of sums deposited in a member bank by a nonmember bank (see Loose-Leaf Service #6164).

"Exhibit VI of the bank's application did not include, as required by the application form, copies of the approvals or authorizations by the State authorities of the establishment of the branches operated by the bank. Apparently with reference to this requirement, Exhibit VI states: 'For authority see Amendment to Charter'. While such amendment gave the bank the power to establish branches, it provided that no branches should be established or conducted without first complying with the requirements of the laws of the State of North Carolina then or thereafter in force respecting the right of banks to open branches. It is our understanding that when the bank established its branches the State laws required that a bank obtain the approval of State authorities before establishing a branch. If this is correct, it would appear that the bank was required to obtain such approval of the establishment of each branch and appropriate evidence thereof should be furnished to the Board."

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that The Farmers and Merchants Bank of Hill City, Hill City, Kansas, became a member of the Federal Reserve System on December 1, 1941, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and

12/2/41

-5-

"6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

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

"Reg. W-112. The Board has been asked whether, in view of section 9(c) covering 'lay-away' plans, Regulation W permits a dealer to accept a small deposit (less than the required down payment) on an article which he agrees to hold until the purchaser has accumulated and paid the required down payment, if as a part of the same transaction the dealer delivers another similar article (such as a demonstrator) to the purchaser for him to use in the meantime.

"The Board has answered this question in the negative.

"The Board has also been asked whether Regulation W permits a dealer to deliver a demonstrator to a prospective purchaser, receiving a small deposit (less than the required down payment) and, in some cases, an old article which the seller is willing to take as a trade-in, if the prospective purchaser has and knows that he has the unconditional legal right to require the dealer to take back the demonstrator and give back the deposit and the trade-in, if any, without being under any obligation to purchase the demonstrator or similar article or under any further obligation whatsoever to the dealer.

"The Board has answered this question in the affirmative.

"The difference between these two cases is that in the first case there was a contract of sale coupled with a side agreement which, in effect, would avoid the Regulation; while in the second case there was no contract of sale and the prospective purchaser had the right to return the demonstrator and receive back the deposit and old article, if any. On the other hand if, in the second case, there had been a contract of sale, even though it was conditional and the purchaser had the right to rescind, it would have been necessary for the seller to obtain the

12/2/41

-6-

"required down payment and to calculate the maturity (in the event the contract became unconditional) from the date of the contract rather than the subsequent delivery of the article."

Approved unanimously.

Letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"This refers to the first two questions contained in your letter of November 24, 1941 regarding Regulation W.

"The first question is whether a first mortgage creating a first lien on improved real estate which is subject to a redeemable ground rent is excepted by section 6(a) of the Regulation.

"It is our understanding that although the ground rent is real estate, it is an incorporeal hereditament in fee in the rent, as distinguished from the corporeal hereditament of the owner of the fee simple estate in the land. Accordingly, the Board agrees with your view that the first mortgage creates a first lien on real estate of the kind described in section 6(a) and that the loan which it secures is therefore exempt.

"Your second question is whether a loan to redeem such a ground rent will be exempt by the provisions of section 6(a), as amended effective December 1. In view of the fact that the ground rent is a fee simple estate, and is real estate, the loan would be exempt under section 6(a), as you indicate (assuming that the ground rent was granted before the borrower purchased the land, or was reserved by the seller when the borrower bought the land), because it would be a loan to finance the purchase of the interest of the owner of the rent and thus free the land of a charge, which would be a transaction of the same nature, for present purposes, as a loan to pay off a mortgage which was on the land at the time the borrower bought it."

Approved unanimously, together with a second letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

12/2/41

-7-

"This refers to the last question contained in your letter of November 24, 1941 regarding Regulation W.

"The question is whether a copy of the statement referred to in section 5(c)(1) should be given to each of the parties to a note which is made by several co-makers, some of whom are accommodation makers.

"The Board agrees with your view that a copy of the statement need be given only to the party who receives the proceeds of the loan."

Letter to Mr. John A. Schoonover, President of The Idaho First National Bank, Boise, Idaho, reading as follows:

"This will acknowledge receipt of your letter of November 19, in which you urge that automobile dealers in the West be allowed to extend more liberal instalment credit than elsewhere in the country because of the higher freight differentials to which they are subject.

"It is true that, owing to the higher prices for automobiles in the West, which result from higher transportation costs, the regulation has the effect of requiring larger minimum monthly payments on cars purchased in the West.

"This point was made a number of times during the preparation of Regulation W and has been carefully considered. It is difficult to see, however, how the Board could, as an administrative matter, impose different requirements for different sections of the country any more than it could impose different requirements in accordance with variations in selling prices due to other than geographical factors. It would hardly be feasible, for example, to permit cars in the highest price bracket to be purchased on more liberal terms than cars in the lowest price bracket.

"Although the Board does not see its way clear in this instance, as in many others, to follow suggestions made by those subject to its regulation, nevertheless your courtesy in presenting your views is much appreciated. The provisions of Regulation W are the subject of constant study to the end that the regulation may be made more equitable without impairing its effectiveness, and suggestions from the trade are given attentive consideration."

Approved unanimously.

12/2/41

-8-

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

"There have been forwarded to you today under separate cover copies of form F. R. 107b to be used by State bank members in submitting their reports of earnings and dividends for the six and twelve months ending December 31, 1941.

"The form is unchanged, so far as the items therein are concerned, from the form used in submitting reports for the six months ended June 30, 1941. However, the new form has an additional column in sections 1 and 2 for figures covering the full year ending December 31, 1941. The figures in this column will represent the total of the figures in the first column of the current report plus those shown in the report of earnings and dividends for the six months ended June 30, 1941. If the latter report was corrected after it was submitted to your bank, the corrections should, of course, be taken into account in compiling the full-year figures for the current report.

"It is suggested that appropriate instructions be given to the banks at the time the forms are sent to them. It is also suggested that, in the examination of the reports submitted by the member banks before transmittal to the Board, particular attention be given to the annual figures in the second column of section 2, to verify that they reconcile section 3 of the current report with section 3 of the report submitted at the end of 1940."

Approved unanimously.

Memorandum dated November 27, 1941, from Mr. Nelson, Assistant Secretary, recommending that the Board accept the bid submitted by the Frank Parsons Paper Company, Washington, D. C., for furnishing the mimeograph paper needed by the Board during the year 1942. The memorandum stated that the bid provides for the following fixed prices for the first quarter of 1942 and for prices for each succeeding quarter based upon the price published by the International Paper Company:

12/2/41

-9-

Size 16 x 21 inches - \$1.86 per ream
Size 16 x 25 inches - 2.21 per ream
Size 17 x 28 inches - 2.64 per ream

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. Coles

Chairman.