

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 19, 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. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter 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 18, 1941, were approved unanimously.

Telegrams to Messrs. Sanford, Post, Hays, and Dillard, Secretaries of the Federal Reserve Banks of New York, Philadelphia, Cleveland, and Chicago, 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 San Francisco on December 16, by the Federal Reserve Bank of Kansas City on December 17, by the Federal Reserve Banks of New York, Cleveland, Chicago, Dallas, and San Francisco on December 18, 1941, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their

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existing schedules.

Approved unanimously.

Memorandum dated December 16, 1941, from Mr. Nelson, Assistant Secretary, recommending (1) that John N. Lyon, page, be promoted to the position of clerk in the accounting section of the Secretary's Office on a permanent basis and that his salary be increased to \$1,440 per annum, effective January 1, 1942, with the understanding that if he performs his duties as expected a recommendation will be submitted that his salary be increased to the rate of \$1,620 per annum, (2) that Harry L. Edwards and George B. Newell, elevator operators, be transferred to the page force of the Secretary's Office without change in their present temporary status and that their salaries be increased from \$1,200 to \$1,260 per annum, effective January 1, 1942, and (3) that Stephen J. Smith and Dean E. Brundage be appointed on a temporary basis for an indefinite period as elevator operators in the Secretary's Office, with salaries at the rate of \$1,200 per annum, effective as of the date upon which each enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memoranda dated December 15, 1941, from Mr. Paulger, Chief of the Division of Examinations, recommending that the following increases in salaries of employees in that Division be approved, effective January 1, 1942:

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<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Millard, Edwin R.	Federal Reserve Examiner	\$6,000	\$6,400
Brown, Willis G.	Federal Reserve Examiner	4,000	4,200
Bartz, Charles H.	Assistant Federal Reserve Examiner	3,400	3,500
Maynard, Mrs. Marguerite C.	Secretary	2,800	2,900

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of December 9, the Board approves the appointment of Mr. Roger K. Grobel as an assistant examiner for the Federal Reserve Bank of Minneapolis. Please advise us of the effective date."

Approved unanimously.

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

"Reference is made to the report of examination of The State Trust Company, Plainfield, New Jersey, as of September 20, 1941. Although Analysis Form 212 with your comments and recommendations has not been received, there are several matters in connection with the condition of the bank which appear to call for consideration at this time.

"It is observed that the bank's adjusted capital account was \$216,000 or 4.4 per cent of deposits of \$4,945,000, which continue to grow. The aggregate of fixed assets, other real estate and potential other real estate amounting to \$443,400 exceeded the book capital accounts totaling \$326,500.

"You have heretofore reported on discussions had with the management with respect to the efforts being made by you to improve the condition of the bank and it is noted

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"from your letter to the bank's directors dated November 7, 1941, that you urged the directors to do all that can and should be done to effect a program to restore the bank's capital account to proper proportions.

"Substantial amounts of losses have been classed in reports of examination in recent years. It does not appear that the bank has made adequate eliminations, yet, despite that situation, the bank has continued to pay dividends on the preferred stock held by the R.F.C. In your letter of August 1, 1941, to the bank you suggested the desirability of omitting the dividend payments until such time as adequate provision had been made for all estimated losses set forth in the examination report of December 3, 1940, amounting to \$60,769. However, on August 28, 1941, the bank wrote you stating that as it had eliminated all losses listed in the State report (\$23,000) it felt that the dividend payable August 1 had been earned, should be paid, and had been paid. It is indeed difficult to understand the repeated failure of the bank to recognize its responsibility as a member of the System to provide for the losses estimated by the examiners for the Reserve Bank insofar as may be possible.

"In view of the excessive aggregate of unsatisfactory assets, the distinctly undercapitalized position of the bank, and the \$82,885 of losses reflected by the current report of examination, it seems clear that the bank should not pay dividends on preferred stock until these conditions have been corrected.

"It will be appreciated, therefore, if you will bring this matter to the attention of The State Trust Company with the request that it make adequate provision for the losses set forth in the report of examination of September 20, 1941, that this be done before the end of the year as far as possible and that earnings be fully conserved until it is clearly demonstrated that the condition of the bank no longer requires their retention. Please advise the Board of the action taken by the bank in this respect.

"It will be appreciated if you will continue to keep the Board informed of your efforts to have improvements effected in the condition of the bank generally."

Approved unanimously.

Telegram to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

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"Board is of opinion that arguments presented by Transamerica Corporation in the memorandum transmitted with West's letter of August 21, 1941, do not warrant reversal of Board's ruling to effect that on August 30, 1940, and after 1941 election of directors of Bank of America National Trust and Savings Association, Transamerica Corporation was a holding company affiliate of such bank by reason of fact that it owned or controlled more than 50 per centum of the number of shares voted for the election of directors of the bank at the preceding election. As stated in Board's telegram to you of March 3, 1941, in light of such opinion it has been unnecessary to consider applicability of portion of definition relating to 'controls in any manner'. Please advise us when you have advised Transamerica Corporation of Board's views."

Approved unanimously.

Letter to Mr. Walter Kasten, Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, reading as follows:

"Pending before this Board is the application of the Wisconsin Bankshares Corporation for a general voting permit covering the Baraboo National Bank, Baraboo, Wisconsin. Action has been deferred on this application and will not be taken pending a discussion of the policies of your corporation, its officers and directors, in the light of the responsibilities of the corporation in connection with voting permits issued to it.

"Accordingly, I would suggest that, prior to the next annual meeting of the Baraboo National Bank, a meeting be held in this office of yourself and any other directors of the Wisconsin Bankshares Corporation that you may wish to bring with you.

"I am willing to give you all the time that is necessary to discuss these matters fully and suggest that you advise me in advance a date that will suit your group."

Approved unanimously.

Letter to Mr. Charles T. Evans, Secretary of the American National Retail Jewelers Association, reading as follows:

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"This will acknowledge receipt of your letter of December 13 expressing the interest of the American National Retail Jewelers Association in any change that may be made in Regulation W which would affect the selling of jewelry on instalments.

"As indicated in the Foreword to Regulation W, there will be changes from time to time in the regulation and items may be added to the list of consumers' durable goods specified. In formulating the regulation and since then the Board has consulted with representatives of the interested trade organizations and, in view of your interest in the matter, if the addition of jewelry or similar merchandise should be given active consideration, your Association will be notified."

Approved unanimously.

Memorandum dated December 18, 1941, from Mr. Smead, Chief of the Division of Bank Operations, submitting the requests of the Federal Reserve Banks for authority to pay the regular semi-annual dividend at the end of 1941, to make additions to reserves for estimated losses on industrial advances, to set up special reserves for depreciation on bank buildings, to make other year-end adjustments, and to transfer amounts from surpluses to reserves for contingencies. The memorandum stated that current earnings of the Reserve Banks for 1941 would be approximately \$41,315,000 and current expenses about \$32,771,000, leaving current net earnings of \$8,544,000, that profits on sales of Government securities to December 16, 1941, amounted to \$1,193,000, that deductions from current net earnings include proposed reserves of \$188,000 for losses on industrial advances and special reserves of \$600,000 on fixed machinery and equipment, that net earnings for the

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year were estimated at \$9,101,000, payments to the Secretary of the Treasury by six Reserve Banks under the provisions of Section 13b at about \$125,000, and net charges to Section 13b surplus approximately \$4,000, that dividends for the year would be about \$8,429,000, and that although total net earnings available for transfers to surplus (Section 7) would amount to approximately \$551,000, the Federal Reserve Banks of Philadelphia, Richmond, and Dallas would have deficits totaling about \$36,000.

Recommendations contained in the memorandum with respect to the requests of the Federal Reserve Banks were approved unanimously as follows with the understanding that the telegrams to the Banks would state that the procedure set forth in the Board's telegram of December 29, 1936, should be followed as to any net earnings or net losses for the year on industrial advances and commitments:

1. Each Federal Reserve Bank was authorized to pay the usual semi-annual dividend at the end of the year, estimated to amount to a total of \$4,234,000.
2. The Federal Reserve Bank of New York was authorized to set aside a special reserve out of current net earnings of \$480,000 on fixed machinery and equipment, which represents about one-third of the total cost of air-conditioning the Bank building, and the Federal Reserve Bank of St. Louis was authorized to set up a special reserve out of current net earnings in the amount of \$120,000 to cover a portion of the cost of air-conditioning the Head Office building of that Bank.
3. The Federal Reserve Bank of Atlanta was authorized to set aside a special reserve of \$25,000 out of current earnings for alterations of the Jacksonville Branch building.

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4. The following Federal Reserve Banks were authorized to set aside reserves for estimated losses on industrial advances and commitments as shown. These reserves were in addition to charge-offs on industrial advances direct to profit and loss already made by the Federal Reserve Bank of Richmond in the amount of \$400, Minneapolis in the amount of \$5,000, and San Francisco in the amount of \$3,000, which charge-offs were also approved:

Boston	\$45,000
New York	92,000
Richmond	25,000
Atlanta	5,000
Dallas	8,000
San Francisco	<u>13,000</u>
Total	\$188,000

5. Three Federal Reserve Banks were authorized to transfer estimated amounts from surplus (Section 7) to reserves for contingencies as follows, the amount transferred being equal in each case to the net earnings of the Bank for the year:

Atlanta	\$47,000
Minneapolis	21,000
Kansas City	59,000

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. [Signature]
Chairman.