

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, December 20, 1941, at 11:00 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 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 19, 1941, were approved unanimously.

Mr. Szymczak stated that in accordance with the action taken at the meeting of the Board on December 16, 1941, he had discussed with Frank J. Lewis the question of his continuance as Class C director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago, and that it was the recommendation of the Personnel Committee that Mr. Lewis be redesignated as Chairman and Federal Reserve Agent for the coming year and that Mr. Leland be appointed Deputy Chairman of the Bank for the year 1942.

Accordingly, Frank J. Lewis was redesignated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago for the year 1942, and his compensation as Chairman and Federal Reserve Agent was fixed

12/20/41

-2-

on the uniform basis fixed for the same position at all Federal Reserve Banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors, and Simeon E. Leland was appointed Deputy Chairman of the Chicago Bank for the same period.

Letter to the board of directors of the "Bankers Trust Company", Rocky Mount, Virginia, stating that, subject to conditions of membership numbered 1 to 3 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:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$7,320.20, 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 appears that, while the bank is authorized to exercise trust powers, actually it is doing so only to a very limited extent. At the time of the examination as of October 13, 1941, made in connection with the application for membership, only one small account was being administered and it is said that additional trust business is not being solicited. In the circumstances, the application has been approved on the same basis as if trust powers were not being exercised. It appears also that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to

12/20/41

-3-

"guarantee the payment of bonds. Attention is invited to the fact that if the bank should desire in the future to exercise trust powers beyond the extent necessary in connection with the one account now being administered, or to exercise any other 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 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 'Bankers Trust Company', Rocky Mount, Virginia, 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 for the Commonwealth of Virginia for his information.

"It will be noted that the condition of membership regarding the elimination of losses requires that the entire amount of the losses classified be eliminated prior to the bank's admission to membership. Such a requirement is in keeping with the Board's established policy in this connection and there appears to be no compelling reason for making an exception in this case.

"It has been noted that the bank has been accepting time deposits of other banks in \$5,000 amounts, the total of which deposits on the date of the recent examination was \$65,000, or nearly 10 per cent of total deposits. The amount at the time of the previous examination was \$55,000.

"According to the examiner, the bank contends that the deposits do not represent borrowed money. That, of course, is a question which the F.D.I.C. or the courts would have to determine should the occasion ever arise, but it must be admitted that in this case the question

12/20/41

-4-

"would at least be close. Aside from that factor, however, the Board feels strongly that from the standpoint of the depositary banks the practice of accepting out-of-town deposits, which would not be tendered if it were not for the insurance feature, offers an easy road to trouble and is wholly unsound. As a result of such a practice, some banks would drift into a state of over-extension and the situation would be more hazardous than if the extra funds had been obtained by means of borrowing through regular channels. Deposits of that character would naturally be more volatile than local deposits and in the event of a reversal in business conditions would likely be withdrawn, and if the deposits had been accepted in any volume serious consequences could result from the bank's being called upon for repayment within a short period.

"Following the recent examination the State Department suggested that the practice be discontinued and it will be expected that the Reserve Bank also will urge the institution to discontinue what could be a dangerous policy.

"When the bank was first examined for membership, in March of this year, there was evidently no idea of the existence of the irregularities which later were to lead to the removal of the president. However, there was an admittedly decided weakness in the management, and the bank's application has been held in abeyance pending steps to correct the situation. The then president, inactive as an officer but a dominant influence in the bank, was regarded as incompetent as a business man, and the principal operating officer, the cashier, was said to be only an operating officer with no initiative and having no voice on policy matters, consequently the unwholesome influence of the president had little, if any, internal opposition.

"The former president has now been replaced and the new president, who has been a director of the bank for the past few years, is said to be a successful farmer, with good judgment and well informed as to the bank's borrowers and conditions in the community. However, he is not to be active in the bank and is, of course, not experienced in bank management. Therefore, even though a definite improvement has unquestionably been made, there is still a recognized weakness in the active management and the business of the bank is certainly of sufficient volume to need the services of a capable active officer. The application

12/20/41

-5-

"has been approved with the distinct understanding that, until existing questions have been satisfactorily resolved, the Reserve Bank will give the case unusually close supervision to see that the affairs of the bank are being soundly administered."

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

"Reg. W-118. The Board has been asked whether, in view of the provisions of sections 8(a), (b) and (c) of Regulation W, a Registrant 'taking over an extension of instalment credit that has been made by a vendor and that has no connection whatever with the sale of a listed article, must be bound by the terms granted by that vendor'.

"The Board has answered that, since the obligation being retired in such case is neither 'instalment loan credit' nor 'instalment sale credit' as defined in the Regulation, and therefore was not itself subject to Regulation W, a Registrant making a loan to retire such an obligation is not bound by the terms granted by the vendor. This, of course, does not exempt the loan from the maximum maturity and other provisions of the Regulation applicable generally to instalment loan credit. Moreover, in such a case, if a Registrant making the loan wished to grant terms more liberal than those granted by the vendor, it would be necessary for him to ascertain that the credit being refinanced was in fact credit arising from the sale of an unlisted article.

"In this connection, the 'Statement of Borrower' prescribed by the Board provides a means for the Registrant to ascertain certain facts, including facts as to whether the proceeds are to be used to retire an instalment obligation, and it protects the Registrant in relying in good faith on such facts when so ascertained. However, the 'Statement of Borrower' does not provide any means for ascertaining facts in addition to those developed in answering the questions contained in the prescribed form. Certain other provisions of the Regulation provide means for establishing certain pertinent facts by accepting in good faith a statement of the obligor with respect to such facts; but neither the 'Statement of Borrower' nor any

12/20/41

-6-

"provision of the Regulation provides any means for ascertaining whether instalment credit being retired, instead of being 'instalment loan credit' or 'instalment sale credit', is some different type of instalment credit. Accordingly, if the Registrant wishes to disregard the terms of the instalment obligation being retired, he must ascertain the necessary facts independently of the 'Statement of Borrower', and the treatment which he may accord to the instalment obligation being retired will be controlled by the facts themselves.

"It may be noted that a similar problem arises in the case of a loan to retire an extension of 'instalment sale credit' or 'instalment loan credit' which was originally granted with a shorter maturity than that required by the Regulation and on which, therefore, the Regulation would permit the rate of payment to be reduced to that permissible in the first instance. The question whether a particular outstanding obligation is one on which the rate of payment could be reduced in this manner is another question which is not answered in the 'Statement of Borrower' and on which the Registrant is not authorized to rely on any other statement of the obligor. Therefore, if the Registrant making the loan to retire the obligation wishes to reduce the rate of payment, he must act independently of the 'Statement of Borrower', and the treatment which he may accord to the instalment obligation being retired will depend upon the facts themselves."

Approved unanimously.

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

"Your wire December 5. A borrower who has contracted to pay 18 monthly instalments of \$25 each and who becomes 4 months past due in the middle of the contract may borrow \$100 from another lender on an 18-month basis in view of the fact that section 8(c) refers only to 'retire' and not to 'reduce'. However, the original lender could not lend him \$100 with which to pay the past-due instalments since that would be in effect a lengthening of the maturity of the original loan without a statement of necessity.

"If the 4 payments were at the end of an 18-month contract the loan by the new lender would be to 'retire'

12/20/41

-7-

"and therefore could not be made without a statement of necessity.

"If the past due payments were in the middle of the 18-month contract, the new lender could not take over the entire contract without a statement of necessity. The new loan could not be made under section 8(b) because the past due instalments and the instalments not yet due are not two separate obligations. The new loan could not be made with the entire outstanding balance divided into equal monthly instalments over the remainder of the original 18 months' maturity because that would have the effect of revising the contract so as to make the last instalments substantially greater than the earlier instalments."

Approved unanimously, with the understanding that a similar telegram would be sent to the Presidents of all Federal Reserve Banks except Minneapolis.

Letter to Mr. Lassiter, Chairman of the Federal Reserve Bank of Richmond, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Richmond made as of September 30, 1941, by the Board's examiners, a copy of the report of the examination was left for your information and the information of the directors. A copy was also furnished President Leach.

"It is understood that the auditing department will be unable to complete the desired schedule of audits this year because of the fact that during the year the department was called upon to loan some of its employees to other departments. The Board recognizes that this was due largely to emergency demands upon the bank; nevertheless, the work of the auditing department is so important that it would seem that every effort should be made by the management to meet the demands upon the operating departments without handicapping the auditing department in its work. Moreover, the Board believes that, as a general policy, a sharp distinction should be maintained between the work of the operating departments and the auditing department and that, in particular, members of the auditing department should not be called upon to participate in the work of

12/20/41

-8-

"operating departments which is subsequently subject to audit.

"The Board will appreciate advice that the report has been considered by the board of directors as well as any comments you may care to offer regarding discussions with respect to the examination or as to action taken as a result of the examination."

Approved unanimously.

Letter to Captain F. W. Hoover, General Manager of the Welfare and Recreational Association, Washington, D. C., reading as follows:

"I have received your letter of December 10 regarding the question of losses occurring in connection with the operation of the Federal Reserve cafeteria.

"I think that our disagreement is more apparent than real, and results not from any real difference of opinion as to the fundamental question, but rather from a misunderstanding of the terms used. Specifically, I am entirely in agreement with you that the Association should not bear a loss resulting from an ordinary miscalculation on the part of the Manager as to how many pounds of fish or how many gallons of oysters she should buy. Obviously she cannot predict with entire accuracy the amount of each kind of food which will be sold each day, and any loss resulting from a miscalculation of this kind would seem to me to be clearly one which would not violate the Agreement of the Association to operate and manage the cafeterias in as economical and efficient a manner as possible. Likewise, I am in agreement with you that the dishes which are broken from time to time in the ordinary course of the conduct of the business should be paid for by the Board, as has, in fact, been done.

"The Agreement, I think, specifically provides for cases of this kind when it says, generally, that the Association will operate the cafeterias 'in as economical and efficient a manner as possible' and, with respect to equipment, that the Board will bear the expense of certain types of equipment lost or destroyed 'in the ordinary course of the conduct of the business covered by this Agreement'. However, it seems to me that the very fact that the Agreement says that the Board shall bear the cost of certain

12/20/41

-9-

"types of equipment lost or destroyed 'in the ordinary course of the conduct of the business' means that the Board will not bear the cost of such equipment if lost or destroyed not in the ordinary course of the conduct of the business. In other words, to use an illustration which none of us expects will occur, if one of the employees of your Association should maliciously or intentionally destroy a piece of equipment, or should steal it, the Board would look to the Association for reimbursement, not only because of the provisions of the Agreement referred to above, but also because the Association, and not the Board, should be held responsible for the willful misconduct of its employees since the Association has 'the exclusive power to appoint, discipline and discharge, and to fix the rates of pay of, employees utilized by it in the performance of this Agreement * * *'. The same would be true as to losses resulting from negligence, although the negligence I have in mind is not the ordinary broken dish or burnt pie which occur 'in the ordinary course of the conduct of the business' of running a cafeteria, but rather the obviously inexcusable type of negligence which would, for example, make you decide forthwith to discharge the employee.

"As regards the Coca Cola syrup which was spilled, we are not disposed to argue about the matter any further if you feel that it is in the same class as the burnt pie. The amount is too small to warrant our risking any impairment of the pleasant and satisfactory relationship which has existed between the Association and the Board. However, we were apprehensive lest the incident be regarded as establishing a precedent at variance with the terms of the Agreement, and that is the only reason for writing you at this length."

Approved unanimously.

Letter to the Secretary of the Interior, reading as follows:

"Chairman Eccles has asked me to reply to your letter of December 10 requesting information on the use of solid fuels. It is noted that the information which you desire relates to fuel requirements of the United States Government and that the information reported will be tabulated to show the fuel consumption of the Government by regions.

12/20/41

-10-

"In view of these statements in your letter as to the purpose of the inquiry, we feel that you should be advised that the requirements of the building occupied by the Board of Governors at 20th and Constitution Avenue in this city for purposes for which solid fuels would be required are met through steam furnished by the Central Heating Plant, electricity furnished by the Potomac Electric Power Company, and gas furnished by the Washington Gas Light Company, so that the Board of Governors does not purchase or carry any stocks of solid fuels.

"The Board of Governors, under the provisions of the Federal Reserve Act, has general supervision over the operations of the Federal Reserve Banks, each of which and its branches, if any, are located in one of the twelve Federal Reserve districts of the United States. While these banks are incorporated under the Federal Reserve Act, the fuel requirements for their buildings are not supplied by the Government and the properties which they occupy are not Government properties.

"In the circumstances, it is assumed that it would not serve your purpose to fill out the forms referred to in your letter so far as the Federal Reserve System is concerned."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Murrie

Secretary.

Approved:

W. C. C. C.

Chairman.