

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 29, 1941, at 10:30 a.m.

PRESENT: 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 27, 1941, were approved un-animously.

Memorandum dated December 26, 1941, from Mr. Nelson, Assistant Secretary, recommending that J. J. Yilek and William Hyde, porters, be promoted to the position of guard on a temporary basis for an indefinite period and that their salaries be increased from the rate of \$1,200 to \$1,380 per annum, effective January 1, 1942.

Approved unanimously.

Letter to Mr. O. M. Attebery, Vice President of the Federal Reserve Bank of St. Louis, Missouri, reading as follows:

"Reference is made to your letter of December 24 requesting permission to reallocate a reserve of \$5,000 for estimated losses on advances under Section 13b from an industrial advance made to The Hug Company, Highland,

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"Illinois, to your commitment issued to the First National Bank, Louisville, Kentucky, with respect to its participation in an industrial advance made by the Reconstruction Finance Corporation to the Indiana Cotton Mills Company, Cannelton, Indiana.

"The transfer of this reserve to the commitment on the advance made to the Indiana Cotton Mills Company, Cannelton, Indiana, is approved with the understanding that it is estimated that a loss of \$5,000 or more is anticipated under this commitment."

Approved unanimously.

Letter to Mr. L. M. Clark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of December 23, the Board approves the designation of Mr. W. H. Sewell as a special assistant examiner. It is understood, of course, that he will not be transferred permanently to examination work without the Board's approval."

Approved unanimously.

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

"This refers to your letter of November 17, 1941, with respect to the proper method of reporting amounts accumulated for the repayment of mortgage loans which are carried as separate accounts by several of the State member banks in your district.

"You state that in the main the amounts in question represent monthly payments on mortgage loans which are applicable to principal, interest, taxes, and insurance; but that frequently the account cannot conveniently be broken down to show what portion is available for each of the purposes named.

"As indicated in your letter, the Board's instructions governing the preparation of condition reports (Form F. R. 105a, pages 6 and 18) provide that all funds received by a member bank in the course of its commercial or fiduciary business (except funds in payment of obligations to the bank) should be treated either as deposit

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"liabilities or as trust funds which the bank keeps segregated and apart from its general assets.

"It is not clear in the present case whether the amounts which are accumulated for the payment of principal and interest represent amounts paid to the bank in advance of the date on which such payments on principal and interest are due and which, accordingly, may not reduce the amount of the indebtedness of the borrower to the bank until such due date, or whether they immediately reduce pro tanto the amount of such indebtedness. Until these amounts do reduce the indebtedness of the borrower, they must, of course, under previous rulings of the Board with respect to analogous questions, be considered as deposits for reserve purposes. If they do reduce immediately the indebtedness of the borrower, it is not necessary to regard them as deposits, when they are properly segregated from other amounts. If these amounts immediately reduce the indebtedness of the borrower but are included in the same account with other amounts which constitute deposits, one factor which might have a bearing on the question whether the entire amount must be classified as a deposit is the approximate proportion of the account which is represented by payments to be applied on taxes and insurance, if this can be ascertained. As you mentioned in your letter, the Board has already taken the position that an account which consists chiefly of funds collected for the payment of taxes and insurance must be classified as a deposit.

"In the circumstances, the Board is not in a position to give a definite answer to the question which you have raised on the basis of the information now at hand. If, after further consideration in the light of the views expressed above and in consultation with your Counsel, you still feel that it is desirable to have a ruling of the Board of Governors on this question, it will be appreciated if you will furnish to the Board such specific information as you can with regard to the points mentioned, together with an opinion of your Counsel with regard to the question."

Approved unanimously.

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

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"Board will interpose no objection to adoption by holding company affiliates of amendments with respect to indemnification of officers and directors substantially as quoted in your telegram of today to McKee. However full responsibility for adoption of such policy and exact language of amendments rests with directors and stockholders of holding company affiliate and it should be understood that there is to be no representation that the Board has endorsed or advocated the adoption of such amendments."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Donald H. ...
Vice Chairman.