

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 31, 1941, at 11:00 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 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 30, 1941, were approved unanimously.

Memorandum dated December 30, 1941, from Mr. Nelson, Assistant Secretary, recommending that Herman L. Tobler (whose appointment as a porter was approved by the Board on October 22, 1941, but who at that time, for reasons stated in Mr. Nelson's memorandum, declined to accept the appointment) be appointed to the position of porter in the Office of the Secretary on a temporary basis for an indefinite period, with salary at the rate of \$1,080 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated December 31, 1941, from Mr. Nelson, Assistant

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Secretary, recommending that J. Robert Surguy, a clerk in the Secretary's Office, be granted leave of absence without pay beginning January 1, 1942, so that he might enter active duty with the United States Naval Reserve, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously.

Memorandum dated December 31, 1941, from Mr. Nelson, Assistant Secretary, submitting the resignation of Philip S. Brown as Assistant Chief of the Correspondence and Publications Section of the Secretary's Office, to become effective as of December 31, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"Referring to your letter of December 26, 1941, the Board of Governors approves payment of salary at the rate of \$3,800 per annum, effective as of January 1, 1942, to Mr. Dana D. Sawyer, Alternate Assistant Federal Reserve Agent."

Approved unanimously.

Letter to Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves, effective January 1, 1942, the changes in the personnel classification plan of the Federal Reserve Bank of Richmond, as requested in your letter of December 23, 1941. Also,

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"in accordance with your request, the Board approves the payment of a salary at the rate of \$2,220, effective January 1, 1942, to Mr. Charles E. Francis, Federal Reserve Agent's Representative, Charlotte Branch.

"It is assumed that new Form A pages reflecting the changes approved will be forwarded to the Board to be placed in its copy of your personnel classification plan."

Approved unanimously.

Letter to Mr. Bryan, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Atlanta, as requested in your letter of December 23, 1941."

Approved unanimously.

Letter to Mr. Woolley, Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of December 26, 1941, the Board of Governors approves the appointment of Mr. Mason L. Thompson, President of the Standard Steel Works, North Kansas City, Missouri, as a member of the Industrial Advisory Committee for the Tenth Federal Reserve District to serve for the remainder of the term ending February 28, 1942, to succeed Mr. Robert Sutherland, deceased."

Approved unanimously.

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

"In accordance with the request contained in your letter of December 19, 1941, the Board of Governors approves the payment of a salary at the rate of \$4,080 per annum, effective January 1, 1942, to Mr. G. W. Relf, as Federal Reserve Agent's Representative, Los Angeles Branch.

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"In a separate letter Mr. Force is being advised of the Board's approval of the payment of a salary at the rate of \$5,000 per annum, effective January 1, 1942, to Mr. W. F. Volberg as Assistant Federal Reserve Agent of your Bank, and accordingly the new Form A pages covering these positions which were submitted with your letter will be placed in the Board's copy of your personnel classification plan."

Approved unanimously, together with a letter to Mr. Force, Federal Reserve Agent at San Francisco, in the following form:

"Referring to your letter of December 16, 1941, the Board of Governors approves the payment of a salary at the rate of \$5,000 per annum, effective January 1, 1942, to Mr. W. F. Volberg, Assistant Federal Reserve Agent at your Bank.

"It is noted that Mr. Volberg will continue to perform certain bank examination work when his duties as Assistant Federal Reserve Agent will permit."

Letter to the board of directors of the "Bank of East Syracuse", East Syracuse, New York, 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 New York:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$4,075 as shown in the report of examination of such bank as of November 15, 1941, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, for transmission through the Federal Reserve Bank of New York.

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Letter to the board of directors of "The Farmers and Merchants' State and Savings Bank", Montpelier, Ohio, 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 Cleveland.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers and Merchants' State and Savings Bank', Montpelier, Ohio, 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 Superintendent of Banks for the State of Ohio for his information.

"In view of the fact that estimated losses classified in the report of examination for membership are reported to have been charged off, the usual condition of membership regarding elimination of losses has not been prescribed."

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

"The Board is astonished to learn from the comments in the confidential section of the report of examination of The Provident Savings Bank and Trust Company, Cincinnati, Ohio, as of October 20, 1941, that certain essential information was withheld from your examiners by officers of the bank and that your examiners were denied access to certain records of the bank. The Board is even more astonished that the matter was passed over so casually in Mr. Fletcher's

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"letter of December 15 to the directors of the bank and that nothing was said to the Board about it.

"It is hard to understand why officers of a bank would deny examiners access to records of security transactions, for instance, and to records of profits, recoveries and losses unless there was something they desired to conceal. Obviously, an examination with such data withheld from the examiners cannot be regarded as satisfactory.

"Therefore, the Board will insist that the recent unsatisfactory examination be supplemented at an early date by such an investigation or examination at the expense of the bank as is necessary to obtain the data withheld at the time of the recent examination, to review the records access to which was denied at that time, and to develop such further information as may be considered necessary or desirable in the circumstances. Prior to making any arrangements for such examination by your bank, it is requested that you familiarize yourself with the facts in this case and report fully thereon to the Board. The Board will expect one or more members of its staff to participate in the examination unless you are able to convince the Board that such participation is unnecessary.

"Please call Mr. Paulger as soon as you have had an opportunity to familiarize yourself with the circumstances regarding the withholding of the information and the manner in which the incident was handled by your bank."

Approved unanimously.

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

"Reg. W-120. The classification 'Plumbing and sanitary fixtures designed for household use' does not include piping or other plumbing supplies not a part of such fixtures, although these items may fall within the classification of materials and services referred to in Group E-1 of Part 1 of the Supplement. It is to be noted, however, that for purposes of determining the maximum amount of credit, the bona fide cash purchase price of the fixtures includes the cost of accessories such as faucets, cabinets, or shower attachments installed with the fixtures. Also included in the bona fide cash purchase price of the fixtures is the cost of installation of the fixtures and

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"accessories but not the cost of installation of separate piping and fittings."

Approved unanimously, together with a letter to Mr. Kennel, Assistant Counsel of the Federal Reserve Bank of Boston, as follows:

"This is with reference to your letter of December 17, 1941 which presented certain questions put by Mr. Theodore Feinstein, Executive Director of the National Supply Association of America, Inc., with respect to Regulation W.

"The first question is whether the classification 'plumbing and sanitary fixtures designed for household use' includes piping and fittings as well as the primary fixture being installed. It is noted that Mr. Feinstein makes reference to Ruling W-51 which excludes piping, ducts, radiators, convectors, or registers from the classification 'household furnaces and heating units for furnaces'.

"It is recognized that the phrase 'plumbing and sanitary fixtures' is not particularly specific and so might be interpreted to cover the piping and fittings. However, it is believed that the word 'fixture' is usually applied to the principal unit such as the sink, bathtub, or lavatory and it seems undesirable to make a restrictive ruling which might be subject to attack, particularly when the piping and fittings are of relatively minor importance. Furthermore, all of the other classifications in the Supplement (with the exception of Group E-1) refer specifically to the principal unit. It was thought that it would be better to have a uniform rule throughout.

"Mr. Feinstein also asked whether in the case of a furnace, the cost of installing piping, ducts, etc. can be excluded from the bona fide cash purchase price of the furnace. The answer is in the affirmative. Costs of installation for the whole job may be broken into two parts, the cash purchase price of the furnace including only the installation cost for the furnace itself.

"Mr. Feinstein's questions were considered to be of sufficient importance to warrant a numbered ruling which you will probably already have received by the time this letter reaches you. The ruling covers plumbing and sanitary fixtures only but it should be understood that the principle laid down with respect to installation costs is applicable generally."



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

"Reg. W-121. The classification 'Water pumps designed for household use' includes windmills designed for pumping water to a tank from which the water is piped for various uses. The windmill is the principal part of the pumping mechanism in these cases and therefore is included even though purchased separately."

Approved unanimously, together with a letter to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, as follows:

"This is in answer to your letters of November 12 and November 28, 1941, in which a question is raised concerning the status under Regulation W of windmills designed to pump water into a tank from which, in many cases but not in all, water is piped for household use. It is understood that in some cases the tank is used exclusively for watering livestock, and that in many of these cases the well is far removed from the house.

"In your letter of November 28, you express the opinion that, for reasons specified, 'windmills should not be included in any of the classifications of listed articles'. The reasons specified are 'that windmills are largely used for agricultural and livestock purposes . . . and the pump itself is a relatively minor portion of the system as compared with the derrick, blades, gear, and piping'.

"The specific question involved is whether the system as a whole can fairly be considered to be a water pump 'designed for household use', and it would appear that the reasons specified lend little support to the view that the article involved is not a pump but do lend some support to the view that the article is not 'designed for' household use. The argument on this point would seem to be that, since the article is frequently used exclusively for non-household purposes and frequently used for a combination of household and non-household purposes, the article could be considered as having been 'designed for' non-household use or for combination uses and not designed for household use.



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"It seems to the Board that this argument is not conclusive, since the article is in fact frequently devoted to household use, either exclusively or in combination with non-household uses, and consequently can be fairly considered as having been 'designed for' household use. In this respect it is no different from any other pump of the same capacity, however actuated.

"It is accordingly the opinion of the Board that, as Regulation W now stands, a system of the kind described is included in Group D of the listed articles."

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

"Re registration under Regulation W on or after January 1, 1942 by newly organized concerns and others which become subject to registration requirement after this date. Board's staff now is preparing for Board consideration proposed modification of Form F.R. 563, to be designated Form F.R. 563-a, designed for registration of such new Registrants. You are hereby authorized until further notice to accept Registration Statements from such persons on the present Form F.R. 563 with such modifications as you may deem appropriate in the particular case. One of these might be provision by which any Registrant required to answer question 3 may report either as of September 30, 1941 or as of any specified date within two months prior to the date of filing the Registration Statement. Another might be to require Registrant to indicate (under question 6 or in an attached note) whether registration covers a new business, or a successor to an existing business (in which case name of predecessor or predecessors should also be given), or an existing concern which is now beginning to engage in business subject to Regulation W.

"If and when Form F.R. 563-a is approved, that form should be used by new Registrants to whom it applies, but you may continue to accept such statements as may be tendered on Form F.R. 563 by persons who have already received that form.

"In sending out forms to new business concerns it may be desirable to point out (1) that a business not yet in operation will not have to report anything under question 3, and (2) that, while the Registration Statement should be sent to the Reserve Bank on or before date on which

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"Registrant commences business which is subject to Regulation W, the Registrant is automatically licensed upon filing of statement and need not wait for acknowledgment from Reserve Bank before commencing business."

Approved unanimously.

Letter to Mr. Hult, Assistant Cashier of the Federal Reserve Bank of Boston, reading as follows:

"Enclosed are a letter dated December 16 in which Mr. Willard G. Shepherd of Holliston, Massachusetts, raises a question under Regulation W regarding the exchange of an unsatisfactory stove, and a copy of the reply which we are sending to Mr. Shepherd.

"The enclosed letter does not make clear all the facts of the situation. It appears, however, as if the transaction which Mr. Shepherd would like to have carried out is an exchange of the stove which he has for a new stove and the appropriate substitution of collateral under his existing instalment contract.

"Assuming that the circumstances outlined in Mr. Shepherd's letter of December 16 are correct, it is the opinion of the Board that such a substitution in connection with an outstanding extension of instalment credit would not constitute a new extension of credit nor such a 'revision' as is restricted by section 8(a) of the regulation, and consequently would be permissible under Regulation W. It is possible, of course, that the facts may prove to be such that the foregoing statement is not applicable; if that is the case it is, of course, possible that Ruling W-101 may be of assistance in taking care of the problem."

Approved unanimously.

Telegram to Mr. Gilmore, Assistant Cashier of the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire December 30. Board agrees with you that Statement of Borrower is not required in connection with loans exempted under section 6, because that section exempts loans from requirements of section 5 which contains

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"requirement as to Statement of Borrower."

Approved unanimously.

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

"Your wire December 29. Test in such cases would be whether bank or discounting agency 'knew any fact by reason of which the extension of instalment credit giving rise to the obligation or claim failed to comply'. See section 3(a)(2)(B). This would not require any positive action by Registrant. See W-58. Of course question whether Registrant knew dealer was not registered would be question of fact in each case, and information might be equivalent to knowledge."

Approved unanimously.

Letter to Mr. Bond Geddes, Executive Vice President of the Radio Manufacturers Association, Washington, D. C., reading as follows:

"This will acknowledge and thank you for your letter of December 29, 1941, requesting the Board to consider the matter of continuing after December 31 section 6(j) of Regulation W.

"The action suggested would have the effect of exempting from the down payment requirements of Regulation W the instalment sale of certain listed articles, including radio receiving sets, which sell for less than a certain price. More exactly, it would have the effect at the present time, so far as radio receiving sets are concerned, of exempting instalment sales of sets selling for more than \$10 and not more than \$50. This is because of the effect of section 4(e) of the regulation, which permits the Registrant to disregard the down payment requirement when this would be \$2 or less, and as long as the down payment on radios required by the regulation remains what it is now, 20 per cent, the instalment sale of any radio selling for \$10 or less would come within the terms of this section.

"When the Board adopted section 4(e), which became effective December 1, 1941, it was contemplated that section

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"6(j), with its broader exemption, would expire on December 31, 1941, according to its terms. That is to say, section 6(j) has from the beginning been viewed by the Board as intended to serve only a temporary purpose, and although requests that it be continued in effect after December 31 have been received in the meantime from various sources and for various reasons, and have been carefully considered, they have not seemed to the Board to justify such action.

"The fact that the regulation has a restrictive effect on the demand for radio receiving sets has been fully recognized by the Board. In fact, this effect was intended, particularly in view of the fact that the supply of such sets, in the present emergency, is restricted for reasons of national defense. There is at present more reason than there has been hitherto for expecting that the supply, already restricted, will be restricted still further, so that so far as radios are concerned the reasons for having section 6(j) expire on December 31, 1941, seem to be even stronger than they have been hitherto."

Approved unanimously.

Letter to the Comptroller of the Currency reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order requested June 14, 1941, for the printing of Federal Reserve notes of the 1934 Series in the amount and denomination stated for the Federal Reserve Bank of Richmond:

Denomi- nation	Number of sheets	Amount
\$5	100,000	\$6,000,000
10	350,000	42,000,000
20	175,000	42,000,000"

Approved unanimously.

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

"Reference is made to your letter of December 20, 1941, in which it is stated that your board of directors at its meeting on December 18, 1941, voted to authorize

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"the officers to make a contribution of \$30,000 to the American Red Cross War Fund, subject to the approval of the Board of Governors. It is noted that the directors recognized their action would be a departure from recent System policy, but that they also recognized the extraordinary character of the times, the urgent need of the American Red Cross War Fund, and the desirability of the Reserve Bank's participating in this particular community effort for defense. It is also noted that the amount of the proposed contribution was believed to be appropriate in the light of what other banks in the community are giving, and having in mind that all of the Federal Reserve Banks might wish to make proportionate contributions.

"The Board sympathizes, of course, with the purposes of and the special circumstances relating to the American Red Cross War Fund, but in view of the peculiar relationship of the Federal Reserve Banks to the Government, the Board has long been of the opinion that it should not authorize donations of Reserve Bank funds for purposes, no matter how worthy, not directly related to the conduct of the affairs of the Bank, and it does not feel that it can now depart from this long established policy. It should be kept in mind that the relationship of the Federal Reserve Banks to the Government involves the point, among others, that the local member banks as stockholders do not have the usual claim upon the assets of the Federal Reserve Banks that common stockholders in other corporations have, since the surplus of each Federal Reserve Bank in case of liquidation will belong to the United States. It may be added that while members of the Board of Governors and of its staff contribute personally to such purposes, the Board of Governors, which derives all of its funds from assessments against the Federal Reserve Banks, does not use such funds for contributions of this character.

"In this connection, on May 17, 1938, in response to a request from the Chairman of the Senate Committee on Banking and Currency for a report on a bill to provide for charitable contributions by Federal Reserve Banks and member banks, the Board pointed out that the Federal Reserve Banks are not confined to State boundaries but cover very large districts which, in some cases, extend through several States, that they are operated under Federal law, and that they perform various functions on behalf of the Federal Government. The Board also advised the Committee it had taken the position that in view of the peculiar relationship of the Federal Reserve Banks to the Government

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"it should not authorize donations of Federal Reserve Bank funds for purposes, no matter how worthy, which were not related to the conduct of the affairs of the Bank. The Committee reported the bill out favorably but in doing so omitted Federal Reserve Banks from the bill. The bill did not pass that session of Congress, and another bill for a similar purpose was introduced in 1939, confined, however, to National banks, and also omitting Federal Reserve Banks from its provisions. This bill became law on June 11, 1940."

Approved unanimously.

Letter to Mr. W. E. Reynolds, Commissioner of Public Buildings, Public Buildings Administration, Washington, D. C., reading as follows:

"The Federal Reserve Banks and Branches, which operate under the general supervision of the Board of Governors of the Federal Reserve System perform a large variety of fiscal agency, custodianship and depository operations for the United States Treasury and other departments and agencies of the Government. The performance of this work for the Government requires the services of about 3,600 employees, or nearly 30 per cent of the total number of employees of the Federal Reserve Banks. In their capacity as fiscal agents, the Federal Reserve Banks receive subscriptions for new issues of Government securities, make the allotments on such subscriptions and deliver the securities. They also redeem all maturing securities and Government coupons, and perform many other services for the Treasury, including the handling of the foreign property control and other foreign accounts, and maintain in custody for the Government large volumes of securities. They also hold on deposit about 2 billion dollars of gold earmarked for the account of foreign governments and foreign banks. In addition they perform many operations for Governmental agencies, such as the Reconstruction Finance Corporation, the Commodity Credit Corporation, etc. It is vitally necessary in carrying out these functions that the buildings of the Federal Reserve Banks and Branches be adequately protected and that the Banks take all necessary safeguards against air raids and subversive activities.



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"We talked with Mr. Peters of your office about this over the telephone about a week ago and he advised us that the Office of Public Works has experts on its staff, including structural engineers, both in Washington and in the field who upon request are assigned to study existing structures and to make recommendations as to any protective measures that should be taken.

"We called this matter to the attention of the Federal Reserve Banks, and the Federal Reserve Bank of New York, located at 33 Liberty Street, New York City, has advised us that while it has taken a number of protective measures and has had an ordinary structural engineer look over the property, it feels that it would be extremely helpful if one of the experts from your office would advise it as to the best type of protection against explosives and bomb damage. The Federal Reserve Bank of Minneapolis, located at 73 So. Fifth Street, Minneapolis, Minnesota, has made a similar request. The advice of your experts in the explosives and bomb field will be of extreme value to these Federal Reserve Banks, and the Board hopes that you will find it possible to have your experts visit them for this purpose."

Approved unanimously.

Memorandum dated December 19, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that material attached to the memorandum concerning the Board's index of industrial production be printed as a separate pamphlet at a cost of approximately \$1,350 for 3,000 copies, that the bid of the Waverly Press of Baltimore, the lowest bidder, be accepted, and that the cost of printing the pamphlet be charged to the Service Functions Budget of the Secretary's Office. The memorandum stated that the material included a description of the construction of the index, back data for the total, group, and individual series, and two charts.

Approved unanimously.



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Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

Donald Hanson  
Vice Chairman.