

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 5, 1942, at 10:30 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 January 2, 1942, were approved unanimously.

Memorandum dated January 1, 1942, from Mr. Nelson, Assistant Secretary, recommending that Thomas H. Gad, a clerk in the Secretary's Office, be granted leave of absence without pay beginning January 4, 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, except that the payment of unearned salary be limited to 31 per cent of one month's compensation.

Approved unanimously.

Memorandum dated January 1, 1942, from Mr. Nelson, Assistant

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Secretary, recommending that assent be given by the Board to the examination and certification by the Civil Service Commission of Mrs. Mary Elizabeth Eaheart, a charwoman, for the jobs of attendant and kitchen helper and mess attendant.

Approved unanimously, with the understanding that before accepting a position covered by the examinations Mrs. Eaheart will obtain the consent of the Board of Governors.

Memorandum dated January 2, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Miss Jeanne M. Gomon, a clerk in that Division, to become effective as of the close of business on December 15, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"The Federal Deposit Insurance Corporation in its letter of June 24, 1940, agreed to reimburse the Board of Governors of the Federal Reserve System for the salaries of two clerks who would be employed for work in connection with the assembly and joint publication of available Federal and State banking statistics, a project on which the Federal Deposit Insurance Corporation, the Comptroller's Office, and the Board were collaborating. The original agreement was for a period of about three months, but extensions were later authorized. The last arrangement expired on December 31, 1941. It was not necessary to ask for another extension, inasmuch as the small amount of clerical help now needed can be supplied by our regular staff. A progress report on the project will be made in the near future.

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"Mr. Robert B. Martin, one of the clerks employed to assist with this work under the reimbursable arrangement, resigned at the close of business December 1, 1941, and was not replaced. Accordingly, reimbursement for the salary of only one clerk will be requested after December 1, 1941."

Approved unanimously.

Letter dated January 3, 1942, to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of December 23, 1941, in reply to the Board's letter of December 16 regarding the management situation of the Central Home Trust Company, Elizabeth, New Jersey. The information contained in your letter is greatly appreciated.

"It is observed that you discussed with Mr. Thomas J. Ahearn, Jr., Manager of the Loan Agency in New York of the Reconstruction Finance Corporation, the attitude of the Corporation with respect to the voting of its preferred stockholdings at the forthcoming annual meeting and were informed that the usual proxy had been sent forward to the present management. While it appears from your discussions with Mr. Ahearn that the Reconstruction Finance Corporation is not inclined to disturb the management of the bank at this time, it is felt that the situation should continue to be closely observed.

"The problems of the Central Home Trust Company and the Elizabethport Banking Company, needless to say, have been a source of concern to the Board as well as to your office. The Board has also shared your disappointment that the Reconstruction Finance Corporation and the Federal Deposit Insurance Corporation were unable to agree on the plan developed several years ago for the consolidation of these institutions. In the circumstances, the steps outlined in the last paragraph of your letter as being important in continuing the process of rehabilitating the Central Home Trust Company appear sensible and sound. It is hoped that, in the absence of a complete solution of the State member bank situation in Elizabeth, the plan of action mentioned by you will be productive of good results.

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"The Board will appreciate your continuing to keep it advised of developments."

Approved unanimously.

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

"Reg. W-122. Group E-1 of the Supplement includes materials and services used in erecting a new fence or in replacing or repairing an existing fence on any property on which there is an existing structure."

Approved unanimously.

Letter to Mr. Hays, Vice President and Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of December 26 asking a question about section 5(f) of Regulation W.

"The question may be illustrated by the following example: A Registrant is selling a listed article for \$100 and the maximum credit value of the article is \$80. However, the seller demands a down payment of \$50, and the prospective purchaser desires to obtain from a cash lender a loan of \$30 with which to make up the difference between the down payment required by the seller and the down payment required by Regulation W.

"You point out that section 5(f) prohibits an extension of instalment loan credit 'to make a down payment on the purchase price of any listed article' but you also point out, on the other hand, that (1) section 8(f), which also deals with loans to make down payments, refers to a loan 'which would bring the total amount of credit extended in connection with such purchase beyond the maximum credit value of such article as specified in the Supplement' and that (2) section 4(e), which deals with down payments of \$2 or less, refers to 'the down payment required by section 4(a).' From this you conclude that the phrase 'a down payment' in section 5(f) may not have been intended to refer to any down payment, but merely to the down payment required by the Regulation.

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"The Board agrees with your view. The words 'down payment' in section 5(f) were intended to refer to the down payment required by the Regulation. If, as in the example given above, the seller would be permitted to extend credit in the amount of \$80, the Regulation would not prevent another Registrant from extending part of this credit, provided the total amount of credit extended in connection with the sale did not exceed \$80."

Approved unanimously.

Letter dated January 3, 1942, to the Presidents of all Federal Reserve Banks, with copy to Federal Reserve Defense Contract officers, reading as follows:

"Enclosed you will find a copy of a letter, dated January 1, 1942, addressed to the Board of Governors by the Honorable Robert P. Patterson, Under Secretary of War, and a copy of Governor Draper's reply thereto, relating to Executive Order No. 9001, dated December 27, 1941. There is also enclosed a copy of P. & C. General Directive No. 98, signed by the Under Secretary.

"In all probability the Defense Contract officer at your head office and branches, if any, will receive an increasing number of requests from officers of the supply arms and services of the War Department for information and assistance in expediting the war effort. Requests will be received for confidential reports regarding industrial concerns in order to aid in the intelligent awarding of contracts and in order that requests for advance payments may be acted upon as promptly as possible. It will be appreciated if you will forward to this office a copy of each of the reports made by the Defense Contract Officer at your head office and branches, if any, advising the name of the officer to whom the report was furnished and the name and address of the concern involved. In those cases where the report is furnished in connection with an advance payment request, please also set forth in the copy of the report forwarded to this office the number and amount of the contract, the date of its execution, the article or articles contracted for, and the amount of the advance payment requested.

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"Major Paul Cleveland of the Office of Under Secretary of War plans to visit certain field procurement districts in the very near future and, as Judge Patterson's letter sets forth, expects to contact certain of the Defense Contract Officers while on such visits in connection with the War Department's procedure as outlined in General Directive No. 98.

"Your cooperation in assisting the War Department will be very much appreciated."

Approved unanimously.

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

"We have received reports that a number of State and local governments have been holding some of their liquid funds in the form of currency. In view of the rapid increase in the volume of currency in circulation during recent years, particularly in large denomination bills, we are interested in determining the prevalence of this practice and to what extent it has been growing or declining. We are therefore requesting each Federal Reserve Bank to obtain reports of the amount of cash on hand, i.e. coin and currency, held by the State governments whose capital is located in the Bank's district and by several of the more important local government units in the district. The figures should be obtained from official published reports wherever possible. If no such reports are published by government units that are of considerable financial importance, however, it would be desirable to get in touch with the appropriate government officials to see if such information can be made available for our confidential use. For purposes of comparison, the reports should show the volume of cash on hand held on some recent date and on the same date two or three years ago, such as December 31, 1941 and December 31, 1938.

"In requesting this information, we realize that the situation is complicated by the fact that there are frequently a number of autonomous and overlapping government units within the same area and that funds of any one government unit may be in the custody of several officials. In such cases it is not necessary to obtain complete coverage of these units, but we are hoping that an adequate

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"sample of those of substantial financial importance can be covered.

"If it is not possible to obtain such figures, it would be desirable for representatives of your Bank to discuss with the appropriate government officials their practice with regard to the holding of currency and whether this practice has been substantially changed during the past two or three years."

Approved unanimously.

It was suggested that the Board authorize the payment of the cost of luncheons served in the Board's dining room on January 1, 1942, to Mr. Dave H. Morris, Jr., Assistant Secretary of the Treasury, a guest of Mr. Clayton, and today to Mr. J. C. Baker, Assistant Dean of Harvard University, a guest of Mr. Szymczak.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Caudle
Chairman.