A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, January 27, 1942, 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 January 26, 1942, were approved unanimously.

Memorandum dated January 23, 1942, from Mr. Wyatt, General Counsel, recommending that Miss LaRue Sargent be appointed as a stenographer in the Office of General Counsel, with salary at the rate of $1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated January 23, 1942, from Mr. Morrill, Secretary, recommending that Misses M. Elizabeth Jones and Eugenia Walyce, who were appointed on a temporary basis on September 21 and November 10, 1941, respectively, be appointed on a permanent basis as junior file

clerks in the Secretary's Office and their salaries increased from $1,260 to $1,440 per annum, effective February 1, 1942.

Approved unanimously.

Letter to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the recommendation contained in your letter of January 15, 1942, the Board rescinds the approval given in its letter of February 12, 1941, for the establishment and operation by the Markle Banking and Trust Company, Hazleton, Pennsylvania, of a branch at Weatherly, Pennsylvania, in connection with the proposed assumption of the liabilities of the First National Bank of Weatherly by the trust company.

"This action is taken in view of your advice that the management of the trust company and representatives of the Federal Deposit Insurance Corporation have been unable to agree upon certain terms in connection with the assets to be acquired, that negotiations have been opened looking toward the assumption of the liabilities of the national bank by a national bank in Hazleton, and that the trust company is no longer being considered as a participant in the transaction."

Approved unanimously.

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

"This refers to your letter of January 14, 1942, in response to the Board's letter of January 3, 1942, regarding an inquiry received by the Board from Mr. L. M. Gaddis, President, Jackson-State National Bank, Jackson, Mississippi, dated December 30, 1941, as to the right of that bank to pay interest on savings deposits in excess of $1,000, in view of an order issued by the State Bank Comptroller of Mississippi on December 29, 1941.

"Under the State Bank Comptroller's order, it appears that the maximum rate of interest which may be paid by State banks in Mississippi on savings accounts during 1942 is 1-1/2 per cent per annum, except that if any savings

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"account exceeds $1,000 no interest may be paid on the excess amount.

"As you know, the Board is authorized by section 19 of the Federal Reserve Act to limit the rates of interest which may be paid by member banks on time or savings deposits; and section 3(c) of its Regulation Q provides that the rate of interest paid by a member bank upon a savings deposit shall not exceed the applicable maximum rate prescribed in the supplement to the Regulation or the applicable maximum rate authorized by law to be paid upon such deposits by State banks, whichever may be less. The latter restriction is in accordance with the requirement of section 24 of the Federal Reserve Act that the rate of interest which a national bank may pay upon savings deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies; and this requirement of the law clearly is intended to place national banks and State banks on a basis of equality with respect to maximum interest rates on such deposits.

"In view of these provisions of the law and of the Board's Regulation Q, it is the opinion of the Board that the rates of interest which a national bank located in Mississippi may lawfully pay on savings deposits during the period the order of the State Bank Comptroller is legally in effect may not exceed the rates prescribed in such order; and that, accordingly, during such period it is not permissible for a national bank in Mississippi to pay any interest on that part of a savings account which exceeds $1,000.

"It will be appreciated if your bank will make reply to Mr. Gaddis' letter of December 30, 1941, advising him of the Board's views with respect to this matter as above set forth.

"It is noted that the State Bank Comptroller's order prohibits the issuance by State banks of certificates of deposit except with maturities of 6 or 12 months; but there is, of course, no provision in the Federal law which makes national banks subject to restrictions of State law with respect to maturities of certificates of deposit. It is possible that a question may arise, in view of the Comptroller's order, as to the maximum rates of interest which may be paid by national banks in Mississippi on certificates of deposit having maturities of other than 6 or 12 months. This question has not been raised with the Board nor, so far as we are informed, with any Federal Reserve Bank or the Comptroller of the Currency; and, accordingly, we are not at this time attempting to express any view with respect

"to maximum rates payable by national banks in Mississippi on such time certificates. If such a question should be presented to you, it is suggested that it might be well for you to consult with the State Bank Comptroller regarding this phase of the matter before expressing an opinion on this question or before submitting it to the Board if such action is deemed necessary."

Approved unanimously.

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

"Reg. W-125. Section 5(c)(1) requires that a copy of the statement of the transaction be given to the obligor. The Board has been asked whether a copy of the statement should be given to each of the parties to a note which is made by several comakers, some of whom are accommodation makers.

"The Board replied that a copy of the statement need be given only to the party who receives the proceeds of the loan.

"Similarly, the Statement of the Borrower required by section 5(d) need be obtained only from the party who receives the proceeds of the loan."

Approved unanimously.

Letter to Mr. Williams, Head of the Consumer Credit Department of the Federal Reserve Bank of Philadelphia, reading as follows:

"Receipt is acknowledged of your letter of December 31 addressed to Dr. Parry regarding the substitution of collateral in automobile sales contracts where the collateral is demolished or injured beyond repair. The inquiry relates to the effect of Regulation W (1) where new collateral is substituted without any change in the terms of repayment or the amount to be repaid, and (2) where it is found impossible to replace the old car with an identical vehicle and additional money is necessary.

"With regard to the first type of case, the Board agrees with you that the new collateral may be substituted

"and the contract may be continued (or rewritten) on its old terms. The insurance company in effect replaces the collateral, and the case is no different in principle from one where the collateral is merely damaged and the insurance company pays for the repairs.

"In the second type of case also the Board believes that the proceeds of the insurance may be substituted for the original collateral, making the provisions of section 4 of Regulation W applicable only to the amount by which the price of the new car exceeds the price of the old car.

"As a practical matter, as you point out, the insurance company will usually pay the money directly to the dealer, and if the dealer furnishes the new car, the buyer will be in the same position as previously, except with respect to the additional value of the new car. This additional value is therefore regarded as a new sale under Regulation W.

"Of course, if the insurance company paid the money to the buyer and the buyer used it to liquidate his original obligation with the dealer, and then entered into a new contract with some other dealer, the above principles would not apply, and there would be a new sale subject to Regulation W.

"The principles discussed above would also apply to the exchange of an unsatisfactory automobile. W-101 was meant to imply that an article found to be defective may be replaced at any time with a similar article, and that if the seller is unable to replace it with a similar article and has to give the purchaser another article of a higher price, the old contract may be continued in effect and a new contract may be entered into covering the difference in the price, provided the transaction is entered into in good faith.

"As indicated in W-101, a transaction of this type is open to the suspicion that it is a mere formality used for the purpose of evading the Regulation, and the suspicion becomes greater in proportion to the length of time the 'defective' article is held before being 'replaced' and in proportion to the amount by which the price of the new article exceeds the value of the old. In fact, if the price is very much greater, the suspicion may be almost irrebuttable. However, this does not mean that there are no cases where such a transaction is entered into in good faith."

Approved unanimously.

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

"For your information you will find enclosed copies of the following communications in regard to the publication of information that might be of value to the enemy:

January 13, from Archibald MacLeish, Director of the Office of Facts and Figures, to Chairman Eccles, quoting a communication from Stephen Early, Secretary to the President.

January 13, from Archibald MacLeish, Chairman, Committee on War Information, to Chairman Eccles, setting forth a statement of the action taken by the Committee on War Information upon a proposal submitted by the War Department relating to a uniform policy covering Government publication of information bearing upon the letting of procurement contracts and similar matters. (A copy of the enclosure referred to in the above letter is also attached.)

"Under the procedure that is being developed, it appears that the Government proposes to put the primary responsibility for censorship, that is, the withholding of information that would be of value to the enemy, upon those who disseminate information, whether they are Government departments, newspapers, radio, or magazines. It is evidently contemplated that where there is doubt matters can be referred to the appropriate Government authorities either in the Office of Censorship or in that of Facts and Figures."

Approved unanimously.

Letter to Honorable Cordell Hull, Secretary of State, reading as follows:

"In response to your request you are advised that the Board favors a proposed amendment to section 7 of the Neutrality Act which would add the following sentence:

'This section shall not be operative when the United States is at war.'"

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:
Chairman.