

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 10, 1942, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Vest, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Williams, Assistant Counsel

Mr. Ransom stated that he would like to have Mr. Roland Robinson, Associate Economist in the Division of Research and Statistics, and Mr. Bonnar Brown, Special Assistant in the Division of Security Loans, go to Canada next week for the purpose of making a brief study of the Canadian experience with consumer credit, particularly with respect to the regulation of open-book accounts and some of the other special problems that are under consideration by the Board at the present time.

Upon motion by Mr. Ransom, Messrs. Robinson and Brown were authorized under Mr. Ransom's direction to make the trip.

3/10/42

-2-

Mr. McKee referred to the information that had been received by the Board relating to the steps being taken by the organizers of the Peoples Bank of Lakewood Village, California, to sever connections with the Transamerica Group and to establish the bank as a genuinely independent institution. He said that last week he discussed the matter with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, and found that the Peoples Bank had made inquiry at the Federal Deposit Insurance Corporation to ascertain whether the Corporation would insure the bank's deposits as a nonmember bank, and that Mr. Crowley stated that it was proposed to address a letter to the bank to the effect that the Corporation had been working closely with the Board and the Comptroller of the Currency on the matter, that the Corporation concurred in the position that the Board had previously taken with respect to the acquisition by the Transamerica group of additional banking offices, and that the Federal Deposit Insurance Corporation would not be willing to insure the bank's deposits as a nonmember institution. Mr. McKee also said that, following a review of the actions taken by the organizers of the bank to establish it as an independent institution, he and Mr. Crowley concurred in the suggestion that, on the basis of a definite showing that the bank was in fact an independent institution and subject to such conditions of membership as might be necessary to provide for its withdrawal from membership in the event such independent status was not maintained, the Board might reconsider the bank's application for membership. Mr. McKee then read a tentative

3/10/42

-3-

draft of letter to the Federal Reserve Bank of San Francisco which had been prepared following the conference with Mr. Crowley, and during the discussion of the draft Mr. McKee said that, while Mr. Crowley might wish to suggest changes in the language of the proposed letter, he was in agreement with the substance thereof.

Mr. McKee also referred to a letter sent to the Board under date of February 27, 1942, through the Federal Reserve Bank of San Francisco, by George J. Knox, Superintendent of Banks of the State of California, with respect to the application of the Peoples Bank, and suggested that if the proposed letter regarding the application were approved as suggested above, the reply to Mr. Knox's letter should be made in the light of that action.

The members of the Board present stated that they were willing to approve admission of the bank to membership subject to the conditions outlined by Mr. McKee, and it was understood that the Division of Examinations would prepare drafts of letters to the Federal Reserve Bank of San Francisco and Mr. Knox in accordance with Mr. McKee's suggestion.

During the discussion of the above matter Mr. Gardner, Senior Economist in the Division of Research and Statistics, joined the meeting, and at its conclusion Messrs. Paulger, Wingfield, and Leonard withdrew.

Reference was made to the suggestion offered by Mr. Wyatt at the meeting of the Board with the Presidents on March 2, 1942, that

3/10/42

-4-

section 2(b) of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, and the Federal Reserve Bulletin schedule of Reserve Bank discount rates be amended to reduce the likelihood of misunderstanding with respect to the authority of the Federal Reserve Banks to make advances for periods up to 90 days to member and nonmember banks on their promissory notes secured by Government obligations. Mr. Wyatt stated that drafts of alternative amendments to Regulation A to clarify this point had been prepared but that, if the regulation was to be amended and reprinted, the Board might wish to determine whether other amendments to the regulation should be made and to submit the amendments to the Federal Reserve Banks for any suggestions that they might have to make. In this connection, he referred particularly to the statement contained in the appendix to Regulation A setting forth recommendations of the Board as to minimum standards for instalment paper used as collateral security for advances to member banks, and stated that the Board might wish to amend that statement to provide that such paper should conform to the provisions of Regulation W, Consumer Credit. He also said that following the meeting of the Board with the Presidents on March 2, 1942, the Board had approved a ruling which had been published in the March issue of the Federal Reserve Bulletin and which outlined the authority of the Federal Reserve Banks to make advances to member and nonmember banks on their promissory notes secured by direct obligations of the United States for periods not exceeding 90 days.



3/10/42

-5-

In the discussion which ensued, the members of the Board indicated the feeling that the amendment of the statement relating to instalment paper would not be necessary at this time, and Mr. Ransom expressed the opinion that the amendment to section 2(b) could be drawn to the attention of member banks more effectively as a separate amendment than would be the case if the entire regulation were reprinted.

Mr. Smead stated that the Federal Reserve Bulletin schedules of Federal Reserve Bank discount rates could readily be changed to remove any question of the authority of the Federal Reserve Banks to make advances of the kind referred to for periods up to 90 days and that this change should be made in the next issue of the Bulletin.

Upon motion by Mr. McKee, Mr. Wyatt was requested to submit to the Board for consideration a draft of amendment to section 2(b) of Regulation A, together with a draft of an appropriate statement to the press and a letter to the Federal Reserve Banks enclosing the amendment and press statement.

It was also understood that appropriate changes in the Federal Reserve Bulletin schedule of Federal Reserve Bank discount rates would be made in the next issue of the Bulletin.

Mr. Ransom called attention to the fact that the first scheduled interim meeting of the members of the Board with the executive committee of the Federal Advisory Council would be held on March 12. There was a discussion of the matters that might be considered with the members of the executive committee at that time, and all of the

3/10/42

-6-

members present concurred in Chairman Eccles' suggestion that the question of Treasury financing might be taken up with a view to ascertaining the views of the members of the executive committee with regard to the recommendations which had been made to the Treasury and, if possible, obtaining the concurrence of the members of the executive committee and the full Federal Advisory Council in that program. It was also agreed that the Board should discuss with the executive committee at the forthcoming meeting what the purpose of, and the scope of the program for, the interim meetings should be.

At this point, Mr. Smead left the room and Mr. Bean, Economic Assistant in the Division of Research and Statistics, came into the meeting.

There was then presented a memorandum dated February 17, 1942, from Mr. Gardner with which he submitted a draft of statement which had been revised pursuant to the action taken at the meeting of the Board on January 28, 1942, for use by a representative of the Board if called upon to testify before a Congressional committee in connection with the proposed Inter-American Bank. Copies of the memorandum and accompanying statement had been sent to each member of the Board before this meeting.

Mr. Gardner stated that it was understood at the meeting on January 28 that when the statement was prepared it would be submitted to Mr. Berle, Assistant Secretary of State, for the purpose of

3/10/42

-7-

ascertaining whether he was in agreement with it or had any comments to make with respect to the statement, and that the question before the Board was whether it desired to send the memorandum to Mr. Berle in the form submitted. He also said that the memorandum was in accordance with the views previously expressed by the Board and it was assumed that, if the memorandum were approved by Mr. Berle, the Board would approve it for use by Chairman Eccles or any other representative of the Board who might appear before a Congressional committee in connection with the proposed bank. Mr. Gardner made the further comment that he talked with Mr. Berle over the telephone this morning, at which time the latter stated that the whole matter probably would come up for active consideration during the course of the next month.

Upon motion by Mr. McKee, it was agreed unanimously that, inasmuch as Chairman Eccles most probably would be the representative of the Board who would testify on this matter before a Congressional committee, he should review the draft of statement with Mr. Gardner, and that when approved by Chairman Eccles the statement would be sent to Mr. Berle for his comments and suggestions, following which it would be placed in final form.

Thereupon, Messrs. Gardner and Bean left the meeting.

Mr. Morrill called attention to letters dated March 4, 1942, received from Senator Tydings on March 9 by the heads of all divisions of the Board's staff and Mr. Foulk, Fiscal Agent, requesting that, in connection with the work of the subcommittee of the Senate Committee

3/10/42

-8-

on Appropriations created pursuant to the provisions of Senate Resolution 223, the division heads answer the questions contained in a questionnaire enclosed with the letter. Under Senate Resolution 223, the subcommittee (composed of Messrs. Tydings, McCarran, and Holman) is authorized "to make a full and complete investigation of the number of employees in the various executive departments and governmental agencies that can be released from their normal activities and transferred to, or used by, defense agencies, either for temporary periods or for the duration of the war, with a view to expediting and intensifying the war effort, reducing governmental expenses, and improving the serious situation with respect to housing facilities and office accommodations", and the questionnaire was designed to develop information with respect to the Board's staff for use in the investigation.

Mr. Morrill stated that he had discussed the request with Messrs. McKee and Clayton prior to this meeting and that it was their suggestion that Senator Tydings' letter be discussed by the Board for the purpose of determining the action that should be taken in connection with it. He said it would appear from the questionnaire that it might have been intended to apply only to departments and agencies which received appropriations from Congress and which were in the classified civil service, and that therefore the question might be raised with Senator Tydings whether a reply from the Board was desired. He pointed out that some of the questions involved matters of Board



3/10/42

-9-

policy, although no request was received by the Board as distinguished from the members of the staff who received it.

During the course of the discussion of the action that should be taken by the Board in the matter, Mr. Ransom expressed the opinion that the Board should answer the questionnaire in full and stated that he would vote against the transmission of any reply that did not constitute an answer to the questionnaire.

At the conclusion of the discussion, the letter and questionnaire were referred to Chairman Eccles with the understanding that he would have prepared a draft of letter to Senator Tydings presenting the question whether, in view of the circumstances, a reply to the questionnaire should be made by the Board, or, in the event he felt the request should not be handled in that manner, he would ask the staff to prepare an answer to the questionnaire. This action was taken with the understanding that, if a reply other than a complete answer to the questionnaire were sent, Mr. Ransom would have the privilege at that time of stating his reasons for voting against the transmission of such a letter. It was also understood that, in any event, the reply should be made by the Board and not individually by the division chiefs.

At this point, Mr. Goldenweiser left the room.

Before this meeting, the attention of the members of the Board had been called to a draft of letter to Mr. Clark, Vice President of the Federal Reserve Bank of Atlanta, in reply to his letter of January 28, 1942, in which was presented the question whether certain accounts

3/10/42

-10-

, carried by the Georgia Railroad Bank and Trust Company of Augusta, Georgia, in the name of the University of Georgia School of Medicine were properly classified as savings deposits. The letter took the position that, in the circumstances, it was the Board's view that certain of the accounts in question, which consisted of funds derived from fees assessed against students and from the sale of medical equipment, might properly be classified as savings deposits within the meaning of the Board's regulation. The proposed letter was considered in the light of a memorandum prepared by Mr. Hackley, Assistant Counsel, under date of February 26, 1942, in which attention was called to the fact that the Board had previously ruled (1) that savings deposits might not consist of funds of a State or municipality or other political subdivision or of any departments, boards, or commissions of a political subdivision such as boards of education, sinking fund commissions, and police and fire departments, and (2) that funds set aside by a municipality for an educational or charitable purpose, such as funds given to a city for the erection of a memorial gate, funds set aside for playground purposes, or funds for a public high school, could not be classified as savings deposits, but that the Board had made an exception in the case of a school district or poor district, holding that funds of such districts might be classified as savings deposits on the ground that they are separate political entities which are operated primarily for an educational or charitable purpose.

3/10/42

-11-

Mr. Ransom stated that it was his understanding that a law was recently passed in Georgia liberalizing the authority of the Governor to use State funds, that this new statute might result in the funds referred to in the draft of letter to Mr. Clark being subject to use for other than educational purposes, and that aside from that question he was unable to reconcile the proposed ruling with the rulings previously made by the Board as referred to in Mr. Hackley's memorandum. He stated, however, that if the rulings could be reconciled he would be willing to approve the letter to Mr. Clark.

At the conclusion of a discussion, it was understood that Mr. Vest would ascertain whether the Georgia law had been changed in the manner referred to by Mr. Ransom, and that, if the circumstances were found to be as outlined in the proposed letter to Mr. Clark, Mr. Vest would prepare a memorandum in which he would undertake to reconcile the proposed ruling with the rulings previously made by the Board and submit the memorandum and draft of letter to the Board for further consideration.

There was then read a letter which had been written by Mr. Szymczak in Los Angeles on March 8, 1942, for the purpose of informing the Board of the progress being made in the formulation of plans for the administration of property of evacuees from designated military areas in California.

Mr. Wyatt stated that under date of February 12, 1942, the President addressed a memorandum to the Secretary of the Treasury,

3/10/42

-12-

in which it was stated that all of the power and authority of the President under sections 3(a) and 5(b) of the Trading With the Enemy Act were thereby delegated to the Secretary of the Treasury. Mr. Ransom stated that the Executive Order issued by the President authorizing the Board to exercise control over consumer credit was issued under the authority of section 5(b) of the Trading With the Enemy Act. Mr. Wyatt reviewed a telephone conversation which he had had with Mr. Kemp, General Counsel of the Bureau of the Budget, relating to the possible effect of the delegation of the President's powers to the Secretary of the Treasury on the authority of the Board with respect to the control of consumer credit, and said that he had stated to Mr. Kemp that he did not think the delegation would affect the Board's authority but that it did raise certain collateral questions, and that he was in agreement with suggestions made by Mr. Kemp that, in a clarification of the memorandum of delegation which Mr. Kemp stated was in contemplation, it might be well to cover these points. Mr. Wyatt also said that he expected to have a further conversation with Mr. Kemp on this matter later today.

Mr. Wyatt then went on to say that the delegation to the Secretary of the Treasury of the authority conferred by section 5(b) of the Trading With the Enemy Act might affect the position of the Federal Reserve Bank of San Francisco in its work in connection with the administration of property of evacuees for the reason that the



3/10/42

-13-

action of the Treasury in designating the Federal Reserve Bank as fiscal agent for that purpose would be taken under the authority of that section. He also said that the telegram sent by the Treasury to the Reserve Bank on March 7, 1942, authorizing it to perform this work was addressed to Mr. Day personally and was in very general terms, that he (Mr. Wyatt) had discussed the matter with Mr. Foley, General Counsel of the Treasury, and that it had been agreed that the Treasury representatives who were now in San Francisco would confer with Mr. Agnew, Counsel for the San Francisco Bank, for the purpose of drafting the form of authorization that it was felt the San Francisco Bank should have in the circumstances. The members of the Board indicated that they were in agreement with this procedure.

At this point, Messrs. Thurston, Wyatt, Vest, Thomas, and Williams left the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 9, 1942, were approved unanimously.

Memorandum dated March 2, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that John M. Crawford be appointed as a junior economist in that Division, with salary at the rate of \$2,900 per annum, effective as of the date upon which he enters upon the performance of his duties after having

3/10/42

-14-

passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated March 10, 1942, from Mr. Nelson, Assistant Secretary, submitting the resignation of Miss Florence Braunsdorf as a stenographer in the Secretary's Office, to become effective as of the close of business on March 16, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"The Board approves the appointment of Ralph A. McIninch as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise us of the effective date."

Approved unanimously.

Telegram to Mr. Grady, Federal Reserve Agent of the Federal Reserve Bank of San Francisco, reading as follows:

"Relet March 3, 1942. Board approves appointment of R. N. Geller as Federal Reserve Agent's Representative, Los Angeles, and O. H. Barnard as Federal Reserve Agent's Representative, Salt Lake City, with salaries at the rate of \$3,600 and \$3,000 per annum, respectively, with the understanding that they will be placed upon the Agent's pay roll and be solely responsible to him, or during vacancy in office of Agent to Assistant Federal Reserve Agent, and to Board of Governors for proper performance of duties. When not engaged in performance of duties as Federal Reserve Agent's Representatives they may, with approval of Federal Reserve Agent (or, in his absence, of Assistant Federal Reserve Agent) and Branch Managing

3/10/42

-15-

"Director, perform such work for Branch as will not be inconsistent with duties as Federal Reserve Agent's Representatives. Messrs. Geller and Barnard should execute usual oath of office and surety bond in amount of \$10,000, and they should not enter upon performance of duties as Representatives until bonds have been examined by your counsel to determine whether their execution complies fully with rules printed on reverse side of form of bond, following which bonds should be forwarded to Board promptly for approval."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the University State Bank, Houston, Texas, became a member of the Federal Reserve System on March 9, 1942, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

3/10/42

-16-

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

"This refers to your letter of March 3, 1942, with enclosures, regarding the question whether The Morris Plan Banking Company of Boston is a 'bank' within the meaning of that provision of the first paragraph of section 13 of the Federal Reserve Act which relates to the opening of accounts by Federal Reserve Banks for non-member banks. It is noted that the General Counsel for your bank has examined the material submitted by The Morris Plan Banking Company of Boston and has informed you that in his opinion this Company may properly be regarded as a bank within the meaning of this provision of the Federal Act.

"It is understood that The Morris Plan Banking Company of Boston was originally incorporated under the general corporation laws of Massachusetts as 'The Boston Morris Plan Company'; that prior to December 28, 1938 the Company duly qualified and received a certificate from the State board of banking incorporation to do business as a 'banking company' under Chapter 172A of the General Laws, as amended by Chapter 266 of the Acts of 1938; that on December 28, 1938, pursuant to the provisions of this statute, the Company's corporate title was duly changed to 'The Morris Plan Banking Company of Boston'; that since that time the Company has been engaged and is now engaged exclusively in the business of a banking company as defined and authorized by the terms of this statute; and that on November 27, 1939 the Company was admitted to membership in the Federal Deposit Insurance Corporation as a nonmember insured bank.

"It is also understood that under the provisions of Chapter 172A of the General Laws of Massachusetts the Company is authorized to receive deposits of money; that the Company does in fact accept deposits of money in the form of time deposits and in the form of savings deposits; and that the Company holds itself out to the public as a 'bank' in all of its activities. It is noted that, while the bank has not heretofore carried checking accounts, it contemplates selling registered checks in accordance with authority for this purpose conferred upon 'banking companies' by a recent amendment to the State law.



3/10/42

-17-

"In these circumstances and in view of the opinion expressed by the General Counsel of your bank, it is the view of the Board of Governors that The Morris Plan Banking Company of Boston may properly be regarded as a 'bank' within the meaning of the provisions of the first paragraph of section 13 of the Federal Reserve Act and that your bank, therefore, may properly permit the Company to open and maintain an account as a nonmember clearing bank in accordance with the provisions of this paragraph of the Federal Reserve Act."

Approved unanimously.

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

"Replying your wire of March 9 to Hodgson, no objection now to your releasing summary data from registration statements for your district. Would appreciate copy of what you release."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. S. Eccles

Chairman.