

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 1, 1942, at 11:50 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Chief, Division of Bank
Operations
Mr. Vest, Assistant General Counsel

Chairman Eccles reported developments during the past week in connection with the preparation of instructions to be issued by the War Department to the Federal Reserve Banks and the drafting of Regulation V on "War Financing" to be issued by the Board, pursuant to Executive Order No. 9112 of March 26, 1942. He said that he had hoped to do this at a Board meeting yesterday evening but that a meeting of the War Loans Committee with representatives of the War and Navy Departments, the Maritime Commission, and the War Production Board had extended beyond the time when it was feasible to call a Board meeting for that purpose. In addition to reviewing the progress made in numerous conferences with representatives of the armed services, Mr. Eccles reported what had transpired in the meetings of the Board's War Loans Committee.

Copies of the drafts of both documents had been furnished to members of the Board before this meeting, and Mr. Eccles inquired whether the drafts met with the approval of the Board. He stated that such drafts, copies of which have been placed in the Board's files, are

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satisfactory to the War Loans Committee and the War Department representatives except in some minor respects which were still under discussion.

Upon motion by Mr. Szymczak, the Board unanimously approved the drafts of the War Department instructions and Regulation V referred to above, for the purpose of discussion with the Reserve Bank representatives at the conference being held today. In this connection, the Board indicated a willingness to approve the documents without further discussion when submitted to it in final form, provided no material changes were made therein.

Mr. Ransom said that he had seen reports in the press to the effect that the procedure envisaged by Executive Order No. 9112 created a monopoly for member banks, and it was his thought that Mr. Thurston should prepare as soon as possible a statement for the press designed to eliminate any misconceptions of the purposes and objectives of the Executive Order. He said that, of course, the same result might be achieved through the issuance of an appropriate statement by the War Department. Mr. Eccles made the suggestion that it would be preferable to have a joint statement issued by the Board of Governors and the other interested agencies. In any event, it was agreed that the matter should be drawn to the attention of Mr. Thurston for consideration of the action which should be taken.

Mr. Eccles stated that in the course of a recent telephone conversation with Under Secretary of the Treasury Bell, Mr. Bell had taken exception to the fact that paragraph 3 of Executive Order No.

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9112 "directed" the Secretary of the Treasury to designate each Federal Reserve Bank to act as fiscal agent of the United States, pursuant to the provisions of section 15 of the Federal Reserve Act, in carrying out any authority granted to it by or pursuant to the Executive Order. He said that Mr. Bell felt that it would have been more appropriate had the Secretary of the Treasury been "authorized" rather than "directed" to make such designations. Moreover, Mr. Eccles said, Mr. Bell thought that the matter was one on which the Treasury should have been consulted before the Order was submitted to the President for approval. He also stated that he had advised Mr. Bell that the provision in question had been included in the Executive Order by the War Department and that, although members of the Board's staff had collaborated with the representatives of the War Department and other agencies involved in drafting the Executive Order, they had questioned this language on the ground that it might not be satisfactory to the Treasury and had withdrawn their objection only on the understanding that the War Department people would clear the matter with the Treasury before the language was considered as final.

Mr. Eccles said that the Treasury had also raised a question regarding the authorization in paragraph 6 of Executive Order No. 9112 which provides that interest, fees, and other charges derived by the War Department, Navy Department, or Maritime Commission, respectively, from operations pursuant to the terms of the Executive Order, may be

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held by the Federal Reserve Banks and shall first be used for the purpose of meeting expenses and losses incurred by the Federal Reserve Banks in acting as agents under or pursuant to the provisions of the Order. It appeared, he said, that Treasury procedure requires the covering into the Treasury as "miscellaneous receipts" of funds such as those referred to in this provision of the Order. Thereafter, Mr. Eccles said, such funds cannot be disbursed until they had been appropriated for the purpose for which the expenditures are to be made. In view of the technical nature of the matter, he said, it had been agreed at the meeting of the War Loans Committee yesterday evening that Mr. Bartelt, Commissioner of Accounts of the Treasury Department, would confer with appropriate representatives of the Chief Finance Officer of the Army in an effort to work out a satisfactory solution. Since provisions similar to those referred to in the Executive Order were contained in section 6 of the proposed instructions from the War Department to the Federal Reserve Banks, it is probable that, as a result of the meeting in the Treasury, the War Department representatives will propose a revision of that section of the instructions.

A third objection on the part of the Treasury Department, according to Chairman Eccles, concerned the provision in section 3(i) of the proposed War Department instructions which provides that, in any case in which any Federal Reserve Bank shall make or participate in making any loan as fiscal agent of the United States under such authority, the funds necessary therefor will be disbursed by the Federal

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Reserve Bank acting as fiscal agent of the United States by draft on the Treasurer of the United States. He said that the language here involved had been included in the proposed instructions with the understanding that it was tentative, and that Mr. Vest had suggested that the matter be cleared in advance by the War Department with the Treasury. However, he said, it was not very important to the System which way the matter was handled, and it was likely that any procedure which was agreed upon by the War Department and the Treasury Department would be satisfactory to the Federal Reserve Banks.

Mr. Eccles then asked Mr. Vest to state the legal basis for the issuance of Executive Order No. 9112 and for the execution of guarantees by the armed services and the Maritime Commission. Mr. Vest explained that there might be question as to the authority of the President to issue the Executive Order under the First War Powers Act. He said that, while the Attorney General had approved the Executive Order, he had not rendered an opinion on the matter. Moreover, he said, the War Department had not obtained an opinion from the Comptroller General with respect to whether unallocated appropriations of the Department might be used under the provisions of the Executive Order. He went on to say that, aside from obtaining a proper ratification of the Executive Order by the inclusion of adequate provisions in appropriation acts of the War and Navy Departments and the Maritime Commission, he could think of nothing further that might be done to strengthen the situation from

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a legal point of view, except possibly to have the Attorney General render an opinion on the validity of the Order. On the other hand, he said, there was no question whatever as to the authority of the War Department to make direct loans under the provisions of the Executive Order.

Chairman Eccles thought that questions would be raised by lawyers representing commercial banks and suggested that it would be preferable to discuss the matter frankly with the representatives of the Reserve Banks at the afternoon session of the conference and that, in the absence of objection, he would ask Mr. Vest to discuss the matter at that time. Mr. Ransom offered no objection to the Chairman's suggestion. He said, however, that it would be unfortunate to create doubts through overzealousness in pointing out apparent defects in the authorities which might be used by captious lawyers as the basis for opinions questioning the validity of the Executive Order or of guarantees executed thereunder. Mr. Smead expressed the opinion that it would be advisable to tell the Federal Reserve Banks that they would be expected to take whatever business risk was involved in so far as their own operations were concerned. Chairman Eccles agreed with this view and said that, as to commercial institutions, efforts would be made to meet any technical legal points that needed clarification.

Consideration was given to a tentative table, prepared by the staff as a basis for discussion at the afternoon session of the conference,

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showing suggested interest rates and guarantee charges which might be adopted by the War Department in consultation with the Board of Governors. The table contained six different plans, all of which contemplated a maximum rate to borrowers of 5 per cent and a range of charges for guarantees. A copy of the table has been placed in the official files of the Board.

At this point, Messrs. Smead and Vest 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 31, 1942, were approved unanimously.

Letter prepared for the signature of Chairman Eccles to Honorable Henry Morgenthau, Jr., Secretary of the Treasury, reading as follows:

"In view of the provisions of the Executive Order of March 26, 1942, No. 9112, authorizing financing of contractors, subcontractors, and others to facilitate the prosecution of the war, and in accordance with the wishes of the War and Navy Departments, the Maritime Commission and the War Production Board, we are engaged in preparing regulations with a view to the fullest possible cooperation on the part of the Federal Reserve System. The objective of the Federal Reserve System in carrying out the purposes of the Executive Order will be to facilitate and expedite war production, including the obtaining or conversion of facilities therefor, by arranging for the financing of contractors, subcontractors, and others engaged in business or operations deemed necessary, appropriate, or convenient for the prosecution of the war.

"It is contemplated, as one of the means to this end, when financing cannot be obtained on a reasonable basis through the usual banking channels, that the Federal Reserve Banks, with or without guarantees, will utilize their powers under section 13(b) of the Federal Reserve Act as far as possible in the financing of enterprises engaged in war production.

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"The Board feels that it would aid materially in the accomplishment of this purpose if the regulations issued by you under date of August 15, 1934, entitled 'Regulations issued pursuant to subsection (e) of section 13(b) of the Federal Reserve Act as amended by the Act approved June 19, 1934', were amended so as to provide for payments to each Reserve Bank in such amounts as the Board of Governors of the Federal Reserve System may request from time to time up to the full amount of the par value of such Reserve Bank's holdings of Federal Deposit Insurance Corporation stock, without following the alternating process now prescribed by the regulation.

"If this suggestion meets with your approval, we would like to have the privilege of having one or more members of the Board's staff consult with your counsel in regard to the details of the changes in the regulation which would be desirable in order to effectuate this purpose."

Approved unanimously.

Memorandum dated March 27, 1942, from Mr. Nelson, Assistant Secretary, recommending that the following increases in salaries of employees in the Secretary's Office be approved, effective as of April 1, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
B. M. Unger	Senior Guard	\$1,560	\$1,680
R. H. Westlake	Guard	1,380	1,500
Warren Kidwell	Junior Operator (Duplicating Devices)	1,440	1,620

Approved unanimously.

Letter to Mr. W. F. Broadwell, Courts & Co., Atlanta, Georgia, reading as follows:

"Reference is made to your letter of March 11, 1942 regarding the question whether a member firm of the New York Stock Exchange may extend credit to a general partner of the firm for the purpose of enabling the partner to make a contribution of capital to the firm, and whether

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"if such a loan is made it may be secured partly by securities that are not registered on any national securities exchange.

"For your information there is enclosed a copy of Regulation T which relates to this subject, and you will find that section 4(f)(2) of the regulation on page 9 deals particularly with the point. It is the view of the Board that a loan of the kind described is permitted under section 4(f)(2)(B) with the approval of an appropriate committee of a national securities exchange, or is permitted under section 4(f)(2)(A) without the necessity for such approval. If the loan is made under either provision there is no requirement as to how the loan must be secured, or whether it must be secured at all, except that in the case of a loan under section 4(f)(2)(B) there must, of course, be compliance with any requirements imposed by the committee as a condition to its approval.

"You will note from the inside cover page of the regulation that it is suggested that any inquiry relating to the regulation should be addressed to a national securities exchange of which the person making the inquiry is a member or, if this is not practicable, that it should be addressed to the Federal Reserve Bank of the district in which the inquiry arises. Accordingly, if you should have any further question with respect to the matter, it is suggested that you communicate with either the New York Stock Exchange or the Federal Reserve Bank of Atlanta."

Approved unanimously.

Memorandum dated March 14, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, reading as follows:

"Board approval is recommended for proceeding with a survey of new commercial and industrial loans made by member banks.

"On the basis of a recommendation dated January 29, the Board on February 9 addressed a letter to the Presidents of the Federal Reserve Banks describing the proposed survey and requesting their comments and those of selected member banks on this project. Replies received from Federal Reserve Banks indicate that the member banks consulted generally are willing to supply the information requested if the Board feels there is a real need for it. While some

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"banks do not see this need, others are enthusiastic about the project and believe that the information would be of great value. There was general agreement that the proposed form is clear and reasonable, and a number of useful suggestions for more or less minor revisions were received.

"On the basis of suggestions received and further consideration of the problem, some revisions have been made in the plans for the project and in the report form. These are in the direction of simplification and of reducing the task of reporting and tabulation.

"The principal change from the earlier proposal is that the survey cover the single month of April, for which all member banks would be requested to report, instead of covering three months with a separate group of banks reporting each month. We hope that an adequate sample of returns can be obtained without making the reporting compulsory. The minimum size of loan to be reported by any bank will be determined on the basis of total amount of loans made and the size of city in which located, rather than in accordance with reserve classification. In accordance with suggestions from many of the Reserve Banks, a proposed letter to be sent to member banks explaining some of the reasons for the survey has been prepared.

"The principal objection to the survey, as anticipated in the Board's letter of February 9 to the Reserve Banks, is the additional burden of reporting such information at this time when banks have a large load of work and depleted staffs. In many cases, however, it was indicated that the large banks recognize the value of such information and are able and willing to supply it. A number of them have already supplied information of a somewhat similar nature to the American Bankers Association or the Association of Reserve City Bankers, or have it for their own use. Some banks, for example in the St. Louis District, indicated that the task of supplying the information would not be burdensome as it could be easily entered on the form at the time the loan is made. Principal objections to the proposal came from the Federal Reserve Banks of Minneapolis and Kansas City, both of which indicated that it was not clear that the reasons in favor of the project were sufficient to justify the burden to be imposed on banks in reporting the information. These views, however, do not appear to be representative of the general opinion of Reserve Banks and of member banks consulted.

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"As the forces working toward inflation continue to develop, it becomes increasingly important for the Board to have more adequate information about the nature of the expansion of bank credit. Commercial loans of member banks are increasing, and there is a wide difference of opinion among those who have looked into the question as to whether this trend will continue or whether the demand for bank loans will begin to decrease in the near future. It appears that banks are still endeavoring to make as many loans as they can find a demand for. Whatever changes take place in the total volume of lending, we should know how different types of loans and different groups of borrowers are being affected. It is to the interest of the banks, as well as of the policy-determining authorities, that such information be available."

Approved, with the understanding that the survey would cover the period from April 16 to May 15, 1942, inclusive. On this action Chairman Eccles voted "no", and it was stated that at the meeting of the Board on February 6, 1942, when this matter first came up, Mr. McKee voted against the survey as he did not think it should be made at this time.

In accordance with the above action, the following letter to the Federal Reserve Banks was also approved, Chairman Eccles voting "no":

"Enclosed is a preliminary draft of a reporting form and a copy of instructions for a one-month survey of commercial and industrial loans at member banks, as approved by the Board of Governors after consideration of the suggestions submitted in response to its letter of February 9. The form is subject to minor revisions before final printing, and a supply of the form will be sent you as soon as possible. The necessary number of copies of the instructions should be reproduced at your Bank. There is also enclosed a copy of a proposed letter explaining the survey that may be sent by each Federal Reserve Bank to its member banks.

"You will note that the survey is to run for one month, from April 16 through May 15, and all member banks are to be requested to report. Although reporting is not compulsory, efforts should be made to obtain reports from as many large

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"banks as possible and from enough small and medium-sized banks to make the sample a thoroughly representative one. In order to provide an advance indication as to the coverage which may be expected, it is suggested that each member bank be supplied with a card, a copy of which is attached, on which the bank is asked to indicate the number of additional forms it may need to supply the information or to indicate its inability to participate.

"The forms for the survey will be printed in Washington. Each form will contain space for reporting about 25 individual loans on each page. There will be three different forms, differing only with respect to the minimum size loan to be reported by the bank receiving the form. All banks having \$10,000,000 or more commercial and industrial loans on December 31, 1941 are to receive Form F.R. 574-A, calling for data on loans of \$5,000 or over. Banks in cities of over 100,000 but having less than \$10,000,000 commercial loans on December 31, 1941 are to receive Form F.R. 574-B, calling for data on loans of \$2,500 or over. Banks in cities of less than 100,000 (except banks having over \$10,000,000 commercial loans on December 31, 1941) are to receive Form F.R. 574-C, calling for data on loans of \$1,000 or over. In case a bank should make less than 10 loans of above the minimum size, it will be asked to report the 10 largest commercial loans made during the month. Each Federal Reserve Bank is asked to see that the proper type report form is sent to each member bank in its district.

"It will be appreciated if you will estimate the number of blank forms of each type you think your members are apt to need during the month, and advise us of these estimates at the earliest possible date. It is suggested that the estimates be broken down into two parts: the number needed to be sent to member banks at the beginning of the month and, as far as possible, those apt to be needed later in response to member bank requests for additional forms. The supply needed for the first purpose will be printed immediately and additional copies will be printed as required. It is hoped that the report forms can be placed in the hands of the member banks a few days before April 16.

"Instructions for tabulating the data will be sent to you later. Any suggestions you may have as to tabulation will be appreciated.

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"Further correspondence regarding details of this project may be addressed to the attention of the Division of Research and Statistics."

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

"There is enclosed for your information a copy of a statement issued by the Department of State regarding the procedure to be followed in extending financial assistance to American nationals in territories where the interests of the United States are represented by Switzerland.

"In the event your bank should be called upon to give any advice concerning this matter, you are authorized to say that the State Department prefers that any action to provide financial assistance to American nationals in territories where the interests of the United States are represented by Switzerland, be initiated by the person seeking such assistance or by near relatives located in this country. We are advised that Swiss representatives located in such enemy territories have been asked to contact citizens of the United States living in such territories and advise them of the substance of the enclosed statement."

Approved unanimously.

Mr. Morrill suggested that the Board authorize the payment of the cost of luncheon served in the Board's dining room today to Mr. John Kenney, Special Assistant to the Under Secretary of the Navy.

Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.