

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, April 6, 1942, at 11:30 a.m.

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

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 April 3, 1942, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 4, 1942, were approved and the actions recorded therein were ratified unanimously.

Chairman Eccles reported that Kenton R. Cravens, who had served on a temporary basis as a consultant on consumer credit in the Division of Security Loans, would be willing to reenter the employ of the Board for a temporary period of not to exceed 60 days for the purpose of serving as Administrator in the organization created by the Board at the meeting on March 26 in connection with the discharge by the Board of its responsibilities under Executive Order No. 9112 authorizing the financing of contracts to facilitate the prosecution

4/6/42

-2-

of the war. Chairman Eccles reported also that it was the recommendation of himself and Mr. Draper that, effective today, the Board appoint Mr. Cravens for the temporary period, on the same terms as his previous appointment, under which his salary was fixed at the rate of \$14,500 per annum and he was allowed a per diem of \$10.00 in lieu of subsistence during the period of his temporary employment and reimbursement for his actual necessary transportation expenses between Cleveland and Washington as well as his actual necessary transportation expenses to and from other points to which he might be sent under proper written travel authorization on official business of the Board.

Approved unanimously, with the further understanding that, effective immediately, the office of Administrator for the War Loans Committee would be established which would not be a part of any division of the Board's staff; that Gardner L. Boothe II, Technical Assistant, Catherine E. Hopping, Clerk-stenographer, and Mary Holmes, Clerk, all in the Division of Bank Operations, and Frederica R. Lockhart, Clerk in the Office of the Secretary, would be transferred to that office, effective immediately, with no change in the salaries they are now receiving; and that as promptly as possible a budget covering the expenses of the office for non-personal services would be submitted to the Board for approval.

Letter to Under Secretary of War Patterson, reading as follows:

"We understand that the War Department is giving favorable consideration to the adoption in the form enclosed herewith of instructions to be issued to the Federal Reserve Banks with regard to their operations under Executive Order No. 9112, dated March 26, 1942. These

4/6/42

-3-

"were prepared in informal consultation with representatives of the Board of Governors of the Federal Reserve System. The proposed regulations of the Board of Governors to be issued pursuant to the provisions of the Executive Order provide that the operations of the Federal Reserve Banks thereunder shall be conducted in accordance with instructions issued by the War Department after consultation with the Board of Governors of the Federal Reserve System and this is to advise you that the enclosed instructions are satisfactory to the Board of Governors."

Approved unanimously. The instructions enclosed with the letter were in the following form:

"Pursuant to the authority vested in the Secretary of War by Executive Order No. 9112, dated March 26, 1942, and other authority vested in the Secretary of War, and delegated to or otherwise vested in the Under Secretary of War pursuant to such order or any law or order, each Federal Reserve Bank, as fiscal agent of the United States, is hereby authorized to execute and deliver guarantees and to make loans, discounts, advances and commitments or to participate therein on behalf of the War Department in accordance with the following instructions:

**"SECTION 1. LIAISON AND FINANCIAL CONTRACTING OFFICERS.**

"The Under Secretary of War or his duly authorized representative will as soon as practicable designate liaison and financial contracting officers and alternates therefor (all hereinafter referred to as liaison officers), to be located in each city in which a Federal Reserve Bank is situated and elsewhere as required. Such liaison officers when designated shall have the authority hereinafter specified.

**"SECTION 2. ADVANCE PAYMENT AND LOAN SECTION.**

"There has been established in the Budget and Financial Administration Division, Service of Supply, War Department, an Advance Payment and Loan Section in which has been centered the administration of the powers conferred by Executive Order 9112. The Federal Reserve Banks will be notified from time to time of the names of officers who have been authorized as financial contracting officers to act for the War Department in authorizing the execution of guarantees and the making of loans on behalf of the War Department. Pending the appointment of liaison officers the procedure prescribed in paragraph (f) of Section 3 hereof

4/6/42

-4-

"shall be followed, in so far as applicable, with respect to any proposed guarantee or loan to be made on behalf of the War Department, regardless of amount.

"SECTION 3. PROCEDURE IN MAKING OR GUARANTEEING LOANS.

"When it appears to a liaison officer that any contractor, subcontractor or other person (hereinafter called 'enterprise') is engaged in or is about to engage in any business or operation deemed by the liaison officer to be necessary, appropriate or convenient for the prosecution of the war and is in need of funds in order to facilitate or expedite war production or the obtaining or conversion of facilities needed therefor, he will so notify the Federal Reserve Bank in writing. Thereupon such liaison officer and Federal Reserve Bank shall proceed as follows:

"(a) The Federal Reserve Bank will make an investigation of the credit standing and financial condition of such enterprise and of the character of its management and will determine the most appropriate and expeditious method of providing necessary financing and the amount thereof and the terms and conditions of such financing.

"(b) Such financing may be accomplished by any one of the following methods: (1) A direct loan by a commercial bank or other financing institution; (2) a direct loan by a Federal Reserve Bank; (3) a participation in a loan by a commercial bank or other financing institution with other such banks or financing institutions or with a Federal Reserve Bank; (4) a direct loan or participation therein as provided in (1), (2), or (3) above guaranteed against loss in whole or in part by the War Department; (5) a participation by the War Department in a loan made by a commercial bank or Federal Reserve Bank or other financing institution; (6) a direct loan by the War Department; or (7) such other arrangement as is considered to be most appropriate and expeditious subject to the approval of the liaison officer.

"(c) In general, it is the policy of the War Department that necessary financing be provided to enterprises above referred to without guarantees or loans by the War Department and that guarantees to the extent necessary be used in preference to loans by the War Department.

"(d) In arranging for loans or participations therein to be guaranteed by the War Department and for the making of loans or participations therein on behalf of the War Department, the Federal Reserve Bank and the liaison officer will be expected to make reasonable efforts to afford the War Department the best available protection against possible

4/6/42

-5-

"financial loss consistent with obtaining maximum war production expeditiously, but such guarantees or loans shall not be denied or substantially delayed because of the difficulty of obtaining adequate protection against such loss.

"(e) Except as provided in paragraph (g), if the amount of a guarantee or loan to be made by the War Department, together with other guarantees or loans made by the War Department, Navy Department and Maritime Commission through the agency of such Federal Reserve Bank and outstanding with respect to the same enterprise, does not exceed \$100,000, the Federal Reserve Bank, acting as fiscal agent of the United States, may execute and deliver such guarantee or make such loan on such terms and conditions as it may deem advisable, in accordance with the terms of these instructions and of the executive order above mentioned, without submitting the matter to any other officer or agent of the War Department for prior approval, but report thereof shall be made by wire to the Advance Payment and Loan Section.

"(f) Except as provided in paragraph (g), in case it is recommended by the Federal Reserve Bank that the War Department execute a guarantee or make a loan in excess of the amount authorized by paragraph (e), the Federal Reserve Bank shall submit its recommendation with the necessary supporting information to the Advance Payment and Loan Section of the War Department. In case there is any disagreement between the liaison officer and the Federal Reserve Bank as to whether or not such guarantee should be executed or loan should be made or as to the terms and conditions thereof, either under this paragraph or under paragraph (e), the liaison officer shall, and the Federal Reserve Bank may, report the case to the Advance Payment and Loan Section or a recommendation and with full necessary supporting information. The Chief of the Advance Payment and Loan Section or any executive or assistant executive officer thereof may authorize the Federal Reserve Bank to execute the proposed guarantee or to make the proposed loan on behalf of the War Department upon such terms and conditions as may be prescribed in such authorization, which may be transmitted through the Board of Governors of the Federal Reserve System. Thereupon such Federal Reserve Bank, acting as fiscal agent of the United States, is authorized to execute and deliver such guarantee or to make such loan, as the case may be, on behalf of the War Department in accordance with the terms of such authorization, of these instructions and of the executive order above mentioned.

4/6/42

-6-

"(g) In case it is proposed that the War Department guarantee a loan to be made or participated in by the Federal Reserve Bank and the amount of such guarantee, together with other guarantees or loans made by the War Department, Navy Department and Maritime Commission through the agency of such Federal Reserve Bank and outstanding with respect to the same enterprise, does not exceed \$100,000, the liaison officer may make such guarantee on such terms and conditions as he may deem advisable. If the amount of such guarantee, together with other such guarantees or loans outstanding with respect to the same enterprise, is in excess of \$100,000, the liaison officer shall submit his recommendation with necessary supporting information to the Advance Payment and Loan Section of the War Department. The Chief of such Section or any executive or assistant executive officer thereof may authorize the liaison officer or any other financial contracting officer to execute the proposed guarantee on behalf of the War Department upon such terms and conditions as may be prescribed in such authorization, which may be transmitted through the Board of Governors of the Federal Reserve System. Thereupon such officer is authorized to execute and deliver such guarantee on behalf of the War Department in accordance with the terms of such authorization, of these instructions and of the executive order above mentioned.

"(h) The liaison officer shall have access to all information in the possession of the Federal Reserve Bank with respect to any enterprise and shall have the right to participate in the negotiations with respect to any proposed guarantee or loan. He shall have the right to object to the execution of the guarantee or the making of the loan, or to any term or condition thereof, prior to any commitment with respect thereto. In the event of such objection, the procedure prescribed in paragraph (f) shall be followed.

"(i) In any case in which a Federal Reserve Bank shall make or participate in making a loan as fiscal agent of the United States under this authority, the funds necessary therefor will be paid to the Federal Reserve Bank as fiscal agent of the United States by checks drawn in favor of such bank by a disbursing officer of the War Department. A Federal Reserve Bank may, however, use its own funds for this purpose and in such event will be immediately reimbursed therefor by a War Department disbursing officer.

#### "SECTION 4. REPORTS.

"The Federal Reserve Banks shall make such reports as

4/6/42

-7-

"may be required by the War Department with respect to proposed guarantees or loans made or denied under the provisions of these instructions, including reports as to losses, liabilities and expenses.

"SECTION 5. RATES, MATURITIES AND OTHER CONDITIONS.

"Rates of interest to be charged on loans made or guaranteed in whole or in part by the War Department through the agency of any Federal Reserve Bank and general policies as to terms, conditions and maturities shall be as determined in accordance with the regulations or directions of the Board of Governors of the Federal Reserve System issued after consultation with the War Department, Navy Department or Maritime Commission in accordance with the provisions of the executive order above referred to.

"SECTION 6. EXPENSES AND LOSSES.

"Interest, fees, and other charges derived by the War Department from loans and guarantees of the kinds referred to herein shall be deposited by the Federal Reserve Bank in the account of the Treasurer of the United States for credit in the disbursing account of the appropriate War Department disbursing officer. The Federal Reserve Bank will be reimbursed by the War Department in the usual manner for expenses and losses (including but not limited to attorneys' fees and expenses of litigation) incurred by such Federal Reserve Bank in acting as fiscal agent under these instructions.

"SECTION 7. GENERAL.

"A Federal Reserve Bank, in arranging for or making any guarantees or loans or participations therein on behalf of the War Department under or pursuant to these instructions or in making renewals or extensions thereof or in taking any action that such bank deems necessary to insure compliance with the terms and conditions of any such guarantee, loan or participation therein, will act as fiscal agent of the United States and shall have no responsibility or accountability except as such fiscal agent.

"The term 'loan', as used in these instructions, shall be construed as referring to a loan, discount or advance, including a participation therein, and shall include a commitment to make or purchase such a loan, discount or advance unless otherwise indicated by the context; but such term shall not be construed to include any advance payments made by the War Department, Navy Department or Maritime Commission on a specific contract or on specific contracts.

"The term 'guarantee' as used in these instructions

4/6/42

-8-

"shall be construed as including a commitment to make such a guarantee unless otherwise indicated by the context.

"These instructions, which have been issued after consultation with the Board of Governors of the Federal Reserve System, may be revoked at any time or modified from time to time after consultation with the said Board, but no such revocation or modification shall affect any action taken or obligation incurred under the provisions of the instructions existing at the time such action is taken or obligation is incurred."

Letter prepared for the signature of Chairman Eccles to Under Secretary of War Patterson, reading as follows:

"As you know, actions of the Federal Reserve Banks, under the provisions of Executive Order No. 9112 of March 26, 1942, are subject to such directions and conditions as the Board of Governors of the Federal Reserve System may prescribe, by regulation or otherwise, after consultation with the Secretary of War, the Secretary of the Navy or the Maritime Commission, or their authorized representatives. Accordingly, consideration has been given to a proposed regulation to be adopted in accordance with the provisions of the Executive Order and also to the question of the maximum interest rate that may be charged by financing institutions on loans guaranteed by the War Department, Navy Department or Maritime Commission and the fees to be charged for such guarantees by these agencies.

"These matters were discussed at the conference held on April 1 and 2, 1942, at the offices of the Board of Governors, which was attended by representatives of the several agencies of the Government named in the Executive Order and by representatives of the Board and the Federal Reserve Banks.

"At a meeting held at the Board's offices on April 4, 1942, between representatives of each of these agencies of the Government and of the Board of Governors, the subject of the maximum interest rate and the fees on guarantees was further discussed and an informal agreement was reached as follows:

"Maximum interest rate which may be charged by financing institutions on loans guaranteed in whole or in part by the War Department, Navy Department or Maritime Commission: 5 per cent, subject to change from time to time as may appear desirable;

4/6/42

-9-

"The following schedule of fees for guarantees made by the War Department, Navy Department or Maritime Commission, subject to change from time to time as may appear desirable:

Guarantee Charges on Portion of Loan Guaranteed	
Percentage of Loan Guaranteed	Charges to be determined by Reserve Bank within following limits
91 - 100%	30 - 40% of Loan Rate
75 - 90%	20 - 25% " " "
Up to 75%	10 - 20% " " "
	No charge shall be less than 1/2% per annum on portion of loan guaranteed

"At the meeting on April 4, 1942, the proposed regulation of the Board of Governors under the Executive Order was also considered and there is enclosed herewith a draft of the proposed regulation. The draft enclosed, with the exception of one or two minor details which have been discussed with representatives of your department, is identical with the draft of the regulation which was considered at the meeting on April 4.

"It will be appreciated if you will advise the Board as promptly as possible whether the proposed regulation in the form enclosed, together with the maximum rate of interest and the guarantee fees as above set forth, are satisfactory to you."

Approved unanimously, with the understanding that similar letters were being sent to Under Secretary of Navy Forrestal and Chairman Land of the United States Maritime Commission.

The Board's War Loans Committee had been given to understand by representatives of the War and Navy Departments and the Maritime Commission at a meeting held in the offices of the Board on April 4, 1942, that the draft of regulation enclosed with the letters referred to above and the proposed schedule of fees set forth in the letters had received the informal approval of the three services, and that advice of formal approval would be contained in the replies to the Board's letters. A

4/6/42

-10-

draft of the Board's regulation had been approved informally by the Board at a meeting on April 1, 1942, and had been discussed subsequently with representatives of the Federal Reserve Banks, and the regulation was submitted by the War Loans Committee at this meeting of the Board with a recommendation that it be adopted, effective immediately.

Thereupon, upon motion by Mr. Draper, the following resolution was adopted by unanimous vote:

Resolved, That Regulation V, War Financing, be adopted in the following form to become effective immediately:

"WAR FINANCING

"SECTION 1. AUTHORITY.

"This regulation is based upon and issued pursuant to the Executive Order of the President, No. 9112, dated March 26, 1942 (hereinafter referred to as the Executive Order), and various provisions of the Federal Reserve Act, and has been issued after consultation with the Secretary of War, the Secretary of the Navy, and the United States Maritime Commission (hereinafter referred to as Maritime Commission), or their authorized representatives.

"SECTION 2. OBJECTIVE OF THE FEDERAL RESERVE SYSTEM.

"The objective of the Federal Reserve System in carrying out the purposes of the Executive Order is 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 businesses or operations deemed by the War Department, Navy Department or Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war.

"SECTION 3. BOARD OF GOVERNORS.

"The Board of Governors of the Federal Reserve System

4/6/42

-11-

"will cooperate and assist in every way possible in carrying out the provisions of the Executive Order. It will exercise general supervision and direction of the operations of the Federal Reserve Banks under authority of the Executive Order and will prescribe from time to time, after consultation with the Secretary of War, the Secretary of the Navy or the Maritime Commission, or their authorized representatives, such further direction of the Federal Reserve Banks as may be necessary to accomplish the purposes of the Executive Order. All facilities of the Board and of the Federal Reserve Banks will be made available for the purpose of facilitating the financing of business enterprises, including smaller businesses, in order that they may participate more fully in speeding up war production.

"SECTION 4. FEDERAL RESERVE BANKS AS FISCAL AGENTS.

"Federal Reserve Banks, having been designated as fiscal agents of the United States by the Secretary of the Treasury pursuant to the terms of the Executive Order, will cooperate to the fullest extent possible in carrying out expeditiously and effectively the purposes of the Executive Order in accordance with the provisions of this regulation and the instructions of the War Department, Navy Department or Maritime Commission. To this end the Federal Reserve Banks will arrange guarantees and loans in accordance with the provisions of the Executive Order and of the instructions of the War Department, Navy Department or Maritime Commission, respectively, wherever it is believed that they will contribute to the obtaining of maximum war production expeditiously. While the Federal Reserve Banks will make reasonable efforts to afford the War Department, Navy Department and Maritime Commission the best available protection against possible financial loss consistent with this objective, such guarantees or loans should not be denied or substantially delayed when they can be provided in accordance with the instructions of the War Department, Navy Department or Maritime Commission.

"Each Federal Reserve Bank should arrange such financing, where practicable, without any guarantee or loan or participation therein by the War Department, the Navy Department or the Maritime Commission, through commercial banks whether or not members of the Federal Reserve System or other financing institutions, or through the Federal

4/6/42

-12-

"Reserve Bank under the provisions of section 13b of the Federal Reserve Act. Where this is not feasible, guarantees by the War Department, Navy Department or Maritime Commission of loans made by such banks or financing institutions to the extent necessary should be used in preference to loans or participations therein by any of these agencies.

"SECTION 5. INSTRUCTIONS OF WAR DEPARTMENT,  
NAVY DEPARTMENT, AND MARITIME  
COMMISSION.

"The War Department, Navy Department, and Maritime Commission, after consultation with the Board of Governors of the Federal Reserve System, will issue general instructions with respect to the operations of the Federal Reserve Banks under the Executive Order, including provisions regarding the relationships of the Federal Reserve Banks with liaison officers or other field representatives of such agencies. The operations of the Federal Reserve Banks under the Executive Order shall be conducted in accordance with such instructions.

"SECTION 6. RATES.

"Rates of interest, fees and other charges on loans made or guaranteed in whole or in part by the War Department, Navy Department or Maritime Commission through the agency of any Federal Reserve Bank will from time to time be prescribed, either specifically or by maximum limits or otherwise, by the Board of Governors of the Federal Reserve System after consultation with the War Department, Navy Department or Maritime Commission, and with the Federal Reserve Banks.

"SECTION 7. MATURITIES.

"With respect to financing of production, except as may be otherwise authorized specifically or by general instructions by the War Department, Navy Department or Maritime Commission, the maturity of any loan made or guaranteed in whole or in part by a Federal Reserve Bank on behalf of any such agency shall be consistent with the needs of the borrower for the fulfillment of the contracts or orders for

4/6/42

-13-

"which the financing is provided. With respect to financing of facilities, the maturity of any loan made or guaranteed in whole or in part by a Federal Reserve Bank on behalf of any such agency shall be as may be agreed upon between the parties concerned but in no case shall such maturity be in excess of five years.

"SECTION 8. REPORTS.

"Each Federal Reserve Bank shall make such reports as the Board of Governors of the Federal Reserve System shall require with respect to its operations pursuant to the terms of the Executive Order and of these regulations.

"SECTION 9. GENERAL.

"The term 'loan', as used in this regulation, shall be construed as referring to a loan, discount or advance, including a participation therein, and shall include a commitment to make or purchase such a loan, discount or advance unless otherwise indicated by the context; but such term shall not be construed to include any advance payments made by the War Department, Navy Department or Maritime Commission on a specific contract or on specific contracts.

"The term 'guarantee' as used in this regulation shall be construed as including a commitment to make such a guarantee unless otherwise indicated by the context."

Upon motion by Mr. Draper, and pursuant to the provisions of section 6 of Regulation V, the Board, by unanimous vote, prescribed a maximum interest rate of 5 per cent on loans guaranteed in whole or in part by the War Department, the Navy Department, or the Maritime Commission, and the following schedule of fees for such guarantees:

Guarantee Charges on Portion of Loan Guaranteed.	
	: Charges to be determined
	: by Reserve Bank within the
	: following limits
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91 - 100%	: 30 - 40% of Loan Rate
76 - 90%	: 20 - 25% of Loan Rate
Up to 75% (Inclusive)	: 10 - 20% of Loan Rate
	: No charge shall be less than
	: 1/2% per annum on portion of
	: loan guaranteed.

4/6/42

-14-

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

"Your wire March 31. In determining maximum credit value, license plates, transfer fees and similar expenses may be added to appraisal guide value. However accessories installed in the car at the time of sale or sold at about the same time for installation may not be added to the appraisal guide value, and no additional credit may be extended because of them."

Approved unanimously.

Letter to the representatives of the trade who were in attendance at the March 13, 1942, conference on nonpurpose loans, reading as follows:

"At the March 13 conference on nonpurpose loans held in the Board's offices, it was suggested that the Board prepare a questionnaire to be submitted to you and the others in attendance. You will find a copy herewith.

"The purpose of the questionnaire is to obtain opinions and information, informally and confidentially, to assist the Board in formulating its policies.

"It might be helpful to state briefly the problem giving rise to this series of questions. Nonpurpose loans as described in section 5(b) of Regulation W have been subject to regulation primarily for the following reasons:

1. At the outset Regulation W did not provide for a so-called 'Purpose Test' and, accordingly, it was necessary to regulate all loans to cover 'purpose' loans.
2. There is room for doubt of the effectiveness of a Statement of Borrower in ascertaining the use to which the proceeds of a cash loan will be put. It has seemed necessary, therefore, to supplement the control of 'purpose' loans with an over-all control of all loans below a certain amount like the saucer under the cup, the control of nonpurpose loans catching what spills over.

4/6/42

-15-

- "3. That extensions of credit at a time like this may have an inflationary tendency and, therefore, that there should be continued regulation of nonpurpose as well as purpose lending.
4. The curtailment of nonpurpose loans may be necessary to achieve the ultimate goal of reducing all consumer credit outstanding to a minimum to protect our postwar economy and provide a backlog of demand and purchasing power.

"The Board is continuing its study of the many questions involved in the control of nonpurpose loans. The accompanying questions are intended to develop information in order that the Board may be able to determine whether it is practicable, under present conditions, to relax control of nonpurpose loans.

"Please do not feel required to develop special statistics. Disregard questions if you do not feel qualified to answer. The Board is anxious, however, to have your views on these questions. You may use as much space as you wish in replying.

"It is probably unnecessary to say that the Board invites your cooperation in keeping this matter confidential.

"The Board would appreciate receiving your answers and comments on or before April 18."

Approved unanimously, together with  
a similar letter to representatives of  
banks and finance companies.

Letter to Mr. S. A. Wilson, General Supervisor Time Service, The Baltimore and Ohio Railroad Company, Baltimore, Maryland, reading as follows:

"This refers to your letter of March 24, 1942 (your file number A-1) addressed to Mr. Hodgson, and your telephone conversation with Mr. Chase regarding Regulation W.

"You quote from a letter which states that under section 6(f) a watch may be delivered to the purchaser without any down payment if the price is to be paid at approximately equal intervals in approximately equal instalments the last of which matures three months after the first day of the

4/6/42

-16-

"calendar month next following the sale. The letter also states that a watch may be sold under your payroll deduction order plan, if the watch is not delivered until the amount deducted and paid is equal to the down payment required by the regulation, and if the balance is payable in instalments over a period not to exceed 15 months.

W. "Both of these methods are permissible under Regulation

"The question whether any more liberal treatment may be given under a payroll deduction order plan is now under consideration by this office, and you will be advised through the Baltimore Branch of the Federal Reserve Bank of Richmond if there are further developments in this connection."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. [Signature]  
Chairman.