

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, April 25, 1942, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
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:

Telegrams dated April 24, 1942, to Messrs. Treiber and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 21, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on April 23, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Renewal bond in the amount of \$40,000, executed under date of April 22, 1942, by Oliver E. Foulk as Fiscal Agent of the Board of Governors of the Federal Reserve System.

Approved unanimously.

Memorandum dated April 24, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Miss Esther H. Larson as a clerk in that Division, to become effective as of the close of business on April 22, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter dated April 24, 1942, to Mr. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Referring to your letter of April 20, 1942, the Board of Governors authorizes your Bank, until further notice, to pay to the member of the Federal Advisory Council representing the Third Federal Reserve District an amount not to exceed \$20 for each meeting attended, plus actual traveling expenses, and \$10 per diem during the period the member is absent from home in attending meetings of the Council."

Approved unanimously.

Letter dated April 24, 1942, to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of April 8, 1942, with attachments, relating to the action of the Burlington City Loan and Trust Company, Burlington, New Jersey, in reducing its capital stock in the net amount of \$47,200 by

- (a) retiring the 9,350 shares of its outstanding preferred stock (par value \$93,500, retireable value \$401,300) at a price of \$5 per share;

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"(b) the retirement of 30 fractional shares of the above 9,350 shares of preferred stock and 30 fractional shares of common stock as a unit at a price of \$37.92 per share in addition to the \$5 per share for the preferred stock provided for under (a) above; and

(c) issuing new shares of \$15 par value for the remaining 9,320 shares of outstanding common stock of a par value of \$10 per share.

"It appears from the information submitted that the bank has effected a simplification of its capital structure which, after giving effect to the reduction, will continue to provide a favorable capital ratio. Therefore, the Board will interpose no objection to the transaction under the condition of membership numbered 2."

Approved unanimously.

Letter dated April 24, 1942, to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of March 31, 1942, regarding the receipt by your Bank of a number of letters from member banks with respect to the question whether it is permissible to allow the withdrawal of deposits represented by time certificates of deposit prior to maturity for the purpose of purchasing United States War Bonds.

"This question, as well as the related question regarding immediate withdrawals of savings deposits for the purchase of war bonds where banks require a notice of withdrawal, has been under consideration by the Board on several occasions in recent months, and the matter has been discussed informally with the Treasury Department and with the Federal Deposit Insurance Corporation. In a further discussion of the question with the Treasury on the basis of the information contained in your letter, we were advised informally that the Treasury still feels that action to permit such withdrawals should not be taken.

"As you know, the primary effort of the war bond campaign is to attract the savings of the public from current income so as to reduce present purchasing power and it is hoped that emphasis will be placed by the banks on this approach when discussing the matter with their depositors. Furthermore, a substantial part of

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"the existing time and savings deposits held by banks throughout the United States is already invested in Government securities and substantial withdrawals of these funds might necessitate the sale by some banks of some of their holdings of these securities. It might be well to point out also that the present provisions of Regulation Q with respect to withdrawal of time and savings deposits have the effect of requiring depositors who wish to use existing savings which may not be immediately withdrawn, to defer their purchase of bonds in most instances for a relatively short period, and this delay would not warrant the amendment of Regulation Q to permit immediate withdrawal."

Approved unanimously.

Telegram dated April 24, 1942, to the Presidents of all the Federal Reserve Banks, reading as follows:

"In order that War Department, Navy Department or Maritime Commission may be in possession of adequate information in passing upon applications for guarantees of loans under Executive Order 9112, please accompany requests for such guarantees with a recommendation of necessity for loan from contracting officer of supply arm or service concerned or from some other reliable source. Such statement should include not only necessity for war supplies or services being furnished, but also a statement of necessity of making loan to proposed borrower and his ability to perform work at price specified in contract or subcontract."

Approved unanimously.

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

"It will be appreciated if hereafter you will forward in duplicate all communications and enclosures submitted by mail to the Board in connection with guarantees to be executed by armed services or Maritime Commission under Executive Order 9112. Your cooperation in this

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"respect will facilitate the submission of applications and related data to the appropriate department or agency."

Approved unanimously.

Letter dated April 24, 1942, to Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"In your letter of April 6, 1942, you request the Board's comment regarding the application of Regulation W to the situations that exist where a loan originally in excess of \$1,500 is renewed after having been reduced to less than \$1,500, and where a modernization loan originally in excess of \$1,000 is revised when a large lump sum payment is made which reduces it to less than \$1,000.

"You state your belief that the principles involved in the two cases are similar and that in both situations you have advised that the maturity limitations of Regulation W are inapplicable to the revised contracts provided the original loans and subsequent revisions were made in good faith and without any intent to evade or circumvent the regulation. The Board agrees.

"From the facts given in your letter, it does not appear that the original loans were extensions of instalment loan credit and, therefore, section 8(a) of the regulation dealing with renewals or revisions of instalment sale credit or instalment loan credit is not applicable."

Approved unanimously.

Letter dated April 24, 1942, to Mr. George F. Howard, Managing Editor of the Kelley Blue Book, Los Angeles, California, reading as follows:

"This is in reply to your two letters dated April 20 requesting interpretation of the Board's letter of March 21 regarding the designation of the 'Kelley Blue Book' for purposes of Regulation W.

"With respect to used automobiles of 1934 and earlier models, it is assumed that some appraisal guides will publish quotations for such automobiles, as a service to their subscribers who deal in them. It was the

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"Board's intention, however, to permit such an automobile to have a maximum credit value of  $66\frac{2}{3}$  per cent of its bona fide cash purchase price, regardless of its estimated average retail value as published in appraisal guides, and the Board has no objection to your pointing out these facts in connection with any quotations that you publish for automobiles of 1934 and earlier models.

"With respect to the quotation of automobiles having special equipment, you are correct in interpreting the Board's intention that additional values for radios or heaters, even if stated in the guide, should not be included in determining maximum credit values for purposes of Regulation W. The same principle should be applied to fog lights and other similar equipment."

Approved unanimously.

Letter to Mr. Hulbert T. Bisselle, Vice President of The Riggs National Bank, Washington, D. C., reading as follows:

"In your letter to Mr. Hodgson of April 15, 1942, you requested information regarding the operation of sections 8(a) and 8(b) of Regulation W as amended by Amendment No. 3.

"You are correct in your understanding that 'renewals or revisions' under section 8(a) refer to cases where the terms of the loan are changed but no new money is advanced.

"Your numbered examples 1 and 2 regarding the operation of section 8(a) are correct; that is to say, if a borrower has a loan of \$300 requiring 12 monthly instalments of \$25, 6 of which are paid, the lending bank may refinance the balance for a period of 9 months, the final maturity of the revised note being 15 months from the date of the original note. However, if the original \$300 loan required 15 monthly instalments of \$20 each, there could be no extension of time for payment without first obtaining a Statement of Necessity under section 8(d).

"With regard to Option 1 of section 8(b), you cite the example of a borrower who has a loan of \$300 requiring 15 instalments of \$20 a month and who, after 10 payments are made, requests the lending bank to put the loan back to the original \$300 figure. Under Option

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"1, and as you indicate, the borrower would be required to pay on the consolidated obligation \$20 a month for a five months' period to retire the \$100 balance on the original obligation and pay \$13.33 a month for 15 months on the new credit of \$200; that is to say, the consolidated obligation would call for \$33.33 a month for the first 5 months and \$13.33 a month for the remaining 10 months. This, of course, is the result of establishing terms for the consolidated obligation which would have been necessary to meet the requirements of the regulation if the two obligations had not been consolidated.

"To demonstrate the operation of Option 2 under section 8(b), you cite the example of a borrower giving a note for \$300 calling for 15 monthly instalments of \$20 each. After payment of 5 instalments, the borrower wants to put the loan back to \$300. Under Option 2 a new note may be made for \$300 calling for 15 payments of \$20 a month. However, if this borrower should apply for additional credit of \$160, which would call for a consolidated obligation of \$360, Option 2 would require 15 monthly payments of \$24. Thus, Option 2 prevents reduction of instalment payments, and also limits the credit to not more than 15 uniform monthly instalments."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Frank J. Mason  
Vice Chairman.