

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 8, 1942, at 12:45 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
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 May 7, 1942, were approved unanimously.

Telegrams to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Stroud, First Vice 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 May 5, and by the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on May 7, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Telegram to Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, stating that the Board of Governors approves for the Bank the following rates on advances and commitments under Section 13b of the Federal Reserve Act and the establishment without change of the other rates of discount and purchase in the Bank's existing schedule, effective May 8, 1942:

On advances direct to industrial or commercial organizations, including advances made in participation with other financing institutions - 2-1/2 to 5 per cent.

On advances to financing institutions:

1. Portion for which financing institution is obligated - rate charged borrower less commitment rate.
2. Remaining portion - rate charged borrower.

On commitments to make industrial advances:

1. Direct to industrial or commercial organizations - 10 to 25 per cent of loan rate with minimum of 1/2 per cent.
2. To financing institutions (provided that no commitment shall be given on a loan on which borrower is charged more than 5 per cent):
  - (a) Undisbursed portion of loan - 1/4 per cent.
  - (b) Disbursed portion of loan - 10 to 25 per cent of loan rate with minimum of 1/2 per cent.

Approved unanimously, together with a telegram to the Presidents of all the Federal Reserve Banks, except Cleveland, notifying them of the above rates.

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

"The Board of Governors approves the changes in the

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"personnel classification plan of your Bank and Branches as requested in your letter of May 4, 1942."

Approved unanimously.

Letter to "Haddonfield National Bank", Haddonfield, New Jersey, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for permission to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Jersey, only in the specific trusts in which The Haddonfield National Bank, Haddonfield, New Jersey, had been appointed and was acting on the date the Haddonfield National Bank was authorized by the Comptroller of the Currency to commence business, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, together with a letter in the following form to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia:

"There is enclosed herewith a copy of the letter which the Board has today addressed to the 'Haddonfield National Bank', Haddonfield, New Jersey, granting that bank restricted authority to exercise fiduciary powers only in the specific trusts in which the former, 'The Haddonfield National Bank', had been appointed and was acting on the date the Haddonfield National Bank was

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"authorized by the Comptroller of the Currency to commence business.

"When the liquidation of the trust department of the old bank has been completed and the applicant bank has obtained a clear title to the securities now pledged with the Prerogative Court for account of the old bank's fiduciary activities, the Board will be glad to give further consideration to the application for full fiduciary powers upon receipt of a recommendation from your bank in the premises."

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

"War Department, Navy Department and Maritime Commission have prepared a proposed standard form of guarantee agreement in consultation with representatives of the Board. Proposed standard form is based upon form now being used by War Department, in the preparation of which we had the benefit of your suggestions. The latter were very helpful and we will appreciate such comments, if any, as you may have on new standard form. Sections 5 and 6 of proposed agreement are complicated and longer than desired, but it is felt that protection for financing institutions and borrowers in case of cancellations by the Government is not only equitable but necessary to insure success of financing program. In other respects it has been the purpose of the agencies to keep the length and number of provisions to a minimum. The proposed standard form is to be used in guaranteeing financing institutions other than Reserve Banks but it is contemplated that a similar form with appropriate changes will be used in guaranteeing Federal Reserve Banks on loans made by them. Kindly send any comments you may have by mail or wire to reach us not later than Tuesday, May 12th, and in making suggestions for changes it will be appreciated if the specific language necessary to accomplish the purpose can be set forth. Text of proposed standard form follows:"

Approved unanimously.

Telegram to Mr. Olson, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

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"Re your wire to Cravens yesterday regarding distribution of guarantees executed on behalf of Navy Department, duplicate copies of Navy Department guarantees, as well as War Department guarantees, should be forwarded to Board. Board will in turn turn them over to proper authorities in those Departments."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks prepared by Messrs. Ransom, Szymczak, and McKee in accordance with the action taken at the meeting of the Board on May 5, 1942, and reading as follows:

"Referring to the joint announcement by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System with respect to the amortization of loans to individuals for nonproductive purposes, as stated in the announcement, the examiners for the respective agencies will be expected to pay particular attention in the course of their future examinations to loans of individuals for nonproductive purposes, determine the facts as to the bank's policy with respect to repayments, and explain in their reports to what extent the bank has a program or intends to put into effect a program for the reduction of such debt by payments at regular intervals. It is expected that the supervisory officials of the Reserve Banks and the examiners shall use their influence to see that a program is inaugurated along the above lines by all banks that have not heretofore had a definite plan of amortization.

"One of the stated objectives in the President's seven-point over-all program to keep down the cost of living is the use of income to retire personal indebtedness. The announcement by the Federal supervisory authorities applies to all nonproductive indebtedness. You should impress upon all banks you examine that orderly liquidation of nonproductive indebtedness, irrespective of amount, is expected.

"The announcement was made and these instructions

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"have been issued to direct attention to the part which the borrowing public, the banks and the supervising authorities have been called upon to play in an announced national economic policy."

Approved unanimously.

Letter to Mr. Kennel, Assistant Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This is with further reference to your letter of April 24, 1942, which asked about the classification of lamp shades and fluorescent lights for purposes of Regulation W.

"The Board agrees with your view that lamp shades sold separately are not subject to the regulation. As you suggest, shades should be considered replacements or repair parts which are discussed in ruling W-62. The revision of the regulation has no effect upon the status of shades.

"Your letter also asked about fluorescent lights. You will note that the revised regulation has added a new classification, Group A-22, 'lighting fixtures designed for household use'. This classification includes fluorescent lighting equipment if it is of household design.

"Many fluorescent lighting fixtures of household design are used both in homes and commercial establishments and these are subject to the regulation no matter where they may be installed. It is only those fixtures that are designed solely for use in commercial establishments that are beyond the scope of the regulation."

Approved unanimously.

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

"This is with further reference to your letter of April 21, 1942, which asked about the classification of silver-backed toiletware for purposes of Regulation W.

"It is the Board's opinion that such toiletware is included in Group A-32 of section 13(a) of the revised

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"regulation, 'Silverware (including flatware and hollow ware, whether solid or plated)'".

"You will note that a slight change was made in the wording of this classification when the regulation was revised. The word 'including' was added to the matter in the parenthesis. The effect of this change is to broaden the classification so that it covers not only flatware and hollow ware but also other merchandise made of silver or silver plate."

Approved unanimously.

Letter to Senator Walter F. George, reading as follows:

"Receipt is acknowledged of your letter of April 30, enclosing an inquiry you had received from Mr. F. O. Roesel who writes to you about the regulation of instalment buying.

"Mr. Roesel's letter is not dated but presumably it was written before the President sent his message of April 27 to Congress and on the evening of April 28 made a radio address, in both of which the background to the regulations of prices and consumer credit was discussed.

"In conformity with the program which the President set forth in his message of April 27, the Board has again amended Regulation W, which in its new form became effective on May 6, 1942. The purpose of this regulation, particularly in its present form, is to help make effective the last point in the seven-point program set forth in the President's message of April 27. The President's words were as follows:

'To keep the cost of living from spiraling upward, we must discourage credit and instalment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds.'

"It is true, as your constituent says, that the regulations of instalment buying have affected the business of many dealers, not only in furniture but in other commodities. The regulation of instalment credit is not the only factor in this situation however. Of equal or greater importance is the curtailment of production for the sale

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"to civilian consumers of products which are needed by the armed forces or absorb labor, material, and equipment needed by those services. The Board is not indifferent to the consequences of its regulation and has sought diligently to make the regulation as equitable as possible without impairing its effectiveness. Besides studying carefully all aspects of the problem, it has continuously consulted the representatives of those lines of business immediately affected and it welcomes at all times the suggestions and comments of those who are subject to its regulation.

"In addition to the copy of Regulation W already mentioned, there is enclosed a copy of a Statement for the Press released May 6 which gives the substance of the regulation in condensed form.

"Mr. Roesel's letter is returned herewith."

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Retel May 8. In conformity with approval informally given by three of your directors and with the understanding that the action taken by your officers will be submitted to your board of directors at its next meeting for formal ratification and approval, Board of Governors approves your bank's advising Banco de la Republica Oriental del Uruguay that your bank is willing to make at any time and from time to time any loan or loans to the Banco de la Republica Oriental del Uruguay on the following terms and conditions:

- (a) the amount to be advanced not to exceed \$5,000,000 in the aggregate at any one time outstanding, to be secured by refined gold bars earmarked in your vaults in its name of a value equivalent to at least 111 0/0 of the aggregate amount of loan or loans outstanding from time to time.
- (b) such loans to run for three months but no loan to mature later than May 10, 1943.
- (c) interest to be at your Bank's discount rate for the amounts actually advanced.



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"Participation in loan or loans by other Reserve Banks is approved and they are being advised accordingly by letter."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of February 10, 1942 addressed to Mr. Leo H. Paulger, Chief of the Board's Division of Examinations, regarding the question whether amounts deducted by a bank from its employees' salaries for Social Security taxes should properly be shown as deposits or as other liabilities. You also raise the question whether amounts accrued by the bank for payment of its taxes under the Social Security Act and under State unemployment tax laws should be carried as deposits.

"It appears that under the Social Security Act the tax imposed upon employees is required to be collected by the employer by deducting the amount of such tax from the wages as and when paid and that every employer so required to deduct the tax is expressly made liable for the payment of such tax. In the present case, therefore, the bank deducts the amount of the tax from the salary of the employee and is then itself legally liable for the payment of such tax. In these circumstances it is the view of the Board that amounts so required to be deducted from employees' salaries and to be paid by the bank under the Social Security Act are not to be regarded as deposits for reserve purposes but should be shown in condition reports as 'Other liabilities'.

"With respect to amounts accrued by the bank for the purpose of meeting taxes imposed upon it under the Social Security Act or under State unemployment tax laws, it is the Board's opinion that such amounts likewise should not properly be classified as deposits but should be shown by the bank as 'Other liabilities' in the account 'Interest, taxes, and other expenses accrued and unpaid.'"

Approved unanimously.

Letter to Mr. Day, Chairman of the Conference of Presidents,

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Federal Reserve Bank of San Francisco, reading as follows:

"Thank you for your letter of April 22 advising the Board that the joint report of the Insurance Plan Committee and the Standing Committee on Insurance, dated February 20, has been approved by a majority of the boards of directors of the Federal Reserve Banks, and that the two committees are now at work preparing an agreement under which the Banks can operate a self-insurance plan.

"We note that you have charged the Standing Committee on Insurance with the duty of continuing the study of this problem in accordance with recommendation (6) in the joint report."

Approved unanimously.

Memorandum dated May 4, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that the budgets for the year 1942 for the bank examination departments of the respective Federal Reserve Banks be approved as submitted by the Banks in the following amounts:

<u>Federal Reserve Bank</u>	<u>Budget</u>
Boston	\$ 68,940
New York	348,170
Philadelphia	147,818
Cleveland	126,381
Richmond	99,282
Atlanta	56,800
Chicago	232,627
St. Louis	85,752
Minneapolis	45,419
Kansas City	63,538
Dallas	46,915
San Francisco	119,651

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. S. ...  
Chairman.