

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 15, 1942, at 11:30 a.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 herein-after 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 13, 1942, were approved unanimously.

Telegram dated May 14, 1942, to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Retel May 12. Board has no objection to schedule of rates on advances and commitments under Section 13b proposed for recommendation to your Board of Directors."

Approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Messrs. Treiber, Post, Dillard, and Hale, Secretaries of the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on May 12, by the Federal Reserve Banks of New York and Chicago on May 14, 1942, and by the Federal Reserve Banks of Boston and Philadelphia

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today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Turman, Counsel of the Federal Reserve Bank of Atlanta, 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 16, 1942:

On advances direct to industrial or commercial organizations, including advances made in participation with other financing institutions - $2\frac{1}{2}$ 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 $\frac{1}{2}$ 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 - $\frac{1}{4}$ per cent.
 - (b) Disbursed portion of loan - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent.

Approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board of Governors approves for the Bank

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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 16, 1942:

On advances made direct to established businesses, including advances made in participation with other financing institutions - $2\frac{1}{2}$ to 5 per cent.

On commitments to make advances direct to business enterprises - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent.

On advances to financing institutions:

1. Portion on which Reserve Bank assumes risk - rate charged borrower.
2. Portion on which financing institution assumes risk - 1 to $1\frac{1}{2}$ per cent.

On commitments to financing institutions - 10 to 25 per cent of loan rate with minimum of $\frac{1}{4}$ per cent, provided that no commitment shall be given on a loan on which borrower is charged more than 5 per cent.

Approved unanimously.

Telegram to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, 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 16, 1942:

On advances made direct to established businesses, including advances made in participation with other financing institutions - $2\frac{1}{2}$ to 5 per cent.

On commitments to make advances direct to business enterprises - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent.

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On advances to financing institutions:

1. Portion on which Reserve Bank assumes risk - rate charged borrower.
2. Portion on which financing institution assumes risk - rate charged borrower less commitment rate.

On commitments to financing institutions - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent, provided that no commitment shall be given on a loan on which borrower is charged more than 5 per cent.

Approved unanimously.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, 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 16, 1942:

On advances direct to industrial or commercial organizations, including advances made in participation with other financing institutions - $2\frac{1}{2}$ 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 advances direct to established industrial or commercial businesses - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent.

On commitments to financing institutions to make advances:

1. On undischursed portion of loan - $\frac{1}{4}$ per cent.
2. On dischursed portion of loan - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent.

The telegram also stated that it was assumed no commitment would be

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given on a loan on which the borrower was charged more than 5 per cent.

Approved unanimously.

Memorandum dated May 12, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Victor M. Longstreet, a Senior Economist in that Division, be granted leave of absence without pay beginning May 11, 1942, so that he might enter active duty with the United States Army, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously.

Letter to the board of directors of "The Central State Bank", Connersville, Indiana, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$581.13 as shown in the report of examination of such bank as of April 4, 1942, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comment:

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"It has been noted that the bank has outstanding common capital of \$100,000, which is in excess of the figure at which the stock is shown on the books of the bank. The Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock to be shown at its par value, and it is understood that full restoration of the capital during the current year is contemplated."

Approved unanimously, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Central State Bank', Connersville, Indiana, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Director, Department of Financial Institutions for the State of Indiana, for his information.

"It is assumed that the Reserve Bank will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings account listed on page 16 of the report of examination for membership.

"While the volume of trust business is small and the accounts are reported to be efficiently administered, it has been noted that there is no trust committee and no record in the minutes regarding supervision of the trust department by the bank's board. There will probably be no difficulty in getting the bank to revise its trust operations so that the collective judgment of the board or a committee will be obtained.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice."

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Letter to the board of directors of the "South Chicago Savings Bank", Chicago, Illinois, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$4,943.83 as shown in the report of examination of such bank as of April 13, 1942, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'South Chicago Savings Bank', Chicago, Illinois, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Auditor of Public Accounts for the State of Illinois for his information.

"In approving the reduction of capital in 1940 from \$800,000 to \$500,000, the F.D.I.C. suggested that the bank adopt a program to restore the capital stock to not less than \$800,000 through conservation of earnings, and the president assured the F.D.I.C. that it was the intention to rebuild the capital structure from earnings until it reaches a figure which will be unquestionably adequate. The supervising examiner for the F.D.I.C. suggested that, if the bank is admitted to membership, the attitude of the F.D.I.C. with respect to the rebuilding of the capital account be restated. It is assumed that the bank understands

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"that, as a member bank, it will be expected to carry out any commitment to the F.D.I.C. with respect to increasing its basic capital.

"It is assumed also that the Reserve Bank will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings account listed on page 16 of the report of examination for membership."

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 'Peoples Bank', Lakewood Village, California, became a member of the Federal Reserve System on May 15, 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.

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

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"This is with further reference to your letter of April 21 enclosing a copy of a letter of that date from the Boston Better Business Bureau. You suggested that the Board inform you as to whether there is any objection to the general distribution of the Bureau's statement regarding misleading advertising. On April 24, Mr. Hodgson acknowledged receipt of your letter and advised you that relations with the Better Business Bureaus was then a subject of study.

"On May 8 the Board wrote the Chairman of the Defense Committee of the National Association of Better Business Bureaus expressing its appreciation of the cooperation of Better Business Bureaus in helping to achieve the objectives of Regulation W. A copy of this letter was forwarded to your bank on the same day and it is believed that in the light of that letter you are now in a position to dispose of the inquiry you have received from the Boston Better Business Bureau. It is suggested, however, that the last sentence of the proposed release by that Bureau relating to the Federal Reserve Bank of Boston be eliminated, since the implication may be drawn therefrom that the Bureau is acting as the representative of the Federal Reserve Bank.

"In the last sentence of the first paragraph of the Bureau's statement, reference is made to '15' months. The figure should now be changed to '12'."

Approved unanimously.

Letter to Mr. Phelan, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of May 8, 1942 (Inquiry No. 17), suggesting the following procedure relative to the statement of transaction under section 4(d) of Regulation W where department stores sell coupon books or similar media of credit and obtain a one-third down payment thereon, and require that the balance thereof be paid in monthly instalments meeting the requirements of sections 4(b) and 4(c):

'In connection with the sale of a coupon book, or other similar medium of credit, the coupons or the booklet containing the coupons, or a statement furnished the purchaser concurrently, should contain the following

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"information: (1) the amount of the purchaser's down payment in cash in respect of the coupon book; (2) the deferred balance; (3) the amount of insurance premiums (if any) and of any interest or finance charges, and (4) the terms of payment. At the time a coupon is used for the purchase of a listed article the purchaser should be furnished with a statement (presumably the customary sales check) setting forth (1) a brief description of the article purchased and (2) the cash price of the article.'

"The Board agrees with you that the foregoing procedure would constitute compliance with section 4(d) since, upon the use of the coupons in the purchase of a listed article, the purchaser would then come into possession of a completed statement of transaction.

"This view is in accord with that part of W-84 stating that it is unnecessary for the statement of transaction to be included on a single sheet of paper, but, in effect, such view is an exception to that part of W-84 stating that copies of all parts of the statement of transaction be given to the obligor together.

"The fact that department stores operating as outlined herein would be imposing terms in some cases more severe than those required by the Regulation is immaterial in the light of section 12(k)."

Approved unanimously, together with a letter to the Presidents of all the Federal Reserve Banks transmitting copies of the above letter.

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

"This acknowledges receipt of your letter of May 11 enclosing a letter from Mr. Arthur S. Mode of the Leo S. Mode & Company dated May 8 and Mr. Harrell's reply of May 11.

"Mr. Harrell's letter points out that the \$5 minimum monthly payment provision relates to the aggregate installment indebtedness of the customer and not to individual purchases. This information will have clarified Mr. Mode's understanding of the provision, but, as you suggest, it will not meet entirely the objection which he makes.

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"The \$5 minimum does shorten the period of payment materially where the customer's aggregate purchases are small. It was the Board's view that in most cases the result would be a desirable one, since a 12 months' period is unduly long for the kind of purchases usually involved in these situations. You may assure Mr. Mode, however, that his views will be given earnest consideration."

Approved unanimously.

Letter to The Del Mar Company, Finance Division, Baltimore, Maryland, reading as follows:

"In your letter of May 11, 1942, you asked whether the instalment financing of the premium on a three year fire insurance policy is exempted by section 8(g) of Regulation W if, upon cancellation of the policy by the finance company for default in an instalment payment on the loan contract, the unearned premium returnable by the insurance company on a short-rate cancellation basis would be only 60 per cent of the entire premium, whereas under the loan contract, the insured would owe the lender an amount equal to $66\frac{2}{3}$ per cent of such premium.

"Your inquiry requires a negative answer, since section 8(g) applies only in cases where the extension of credit is at all times to be fully secured by the unearned premium returnable by the insurer on cancellation of the policy.

"The administration of Regulation W has been decentralized, and, therefore, if you have further inquiries relating thereto, it is suggested that you address them to the Baltimore Branch of the Federal Reserve Bank of Richmond."

Approved unanimously.

Memorandum dated May 11, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, reading as follows:

"On December 24, 1941, the Board authorized the staff to proceed with negotiations for obtaining through the Federal Reserve Banks current statistics on retail furniture sales, inventories, and credit. These data are needed

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"in connection with consumer credit because of the importance of furniture stores in this field. The proposal has been discussed with the Reserve Banks and others, forms and plans have been prepared, and the project is now at a stage when negotiations with the stores that will be requested to report should be initiated. I recommend that the Board authorize us to put this project into operation as soon as possible along the lines indicated in the attached drafts of letters, with such changes of detail as may seem advisable.

"Attached are drafts of a letter to be sent by us to heads of research departments of the Federal Reserve Banks and of a proposed letter to be used by the Reserve Banks in soliciting information from retail furniture stores, and also a copy of the proposed form to be used in reporting the statistics.

"The Department of Commerce, the Bureau of the Census, and the National Retail Furniture Association, which are now collecting certain inadequate retail furniture statistics, have informally agreed to discontinue their collections and to centralize this task in the Federal Reserve System as a logical extension of its work in the collection of department store and other trade statistics.

"The additional work can be carried on by the Board's existing staff, including such appointments as have already been made or proposed."

Approved unanimously.

Letter to Mr. Walter A. O'Brien, Trust Officer of the LaSalle National Bank, Chicago, Illinois, reading as follows:

"This refers to your letter of May 8, 1942, transmitting copies of documents entitled 'Universal Common Investment Fund' and 'Universal Trust Agreement' and requesting comments with respect to them.

"We regret that it is impractical for the Board to undertake to examine and comment upon proposed plans for the operation of common trust funds which are prepared by various individuals and individual institutions, and the responsibility for determining, prior to the adoption of any such plan, whether the plan complies with the Board's Regulation F must rest with the institution adopting the

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"plan and its counsel. You are already familiar with the plan prepared by the Committee on Common Trust Funds of the Trust Division of the American Bankers Association as a guide for institutions interested in starting common trust funds. In view of the nature of the undertaking, the Board commented upon tentative drafts of this plan and advised the Committee that the final draft did not conflict with Regulation F. It was felt that this action would be of considerable assistance to all institutions formulating plans for the operation of common trust funds and that, aside from rulings upon specific questions concerning the interpretation of its regulation, the Board could not undertake to do more. Rulings interpreting pertinent provisions of the regulation have been published from time to time in the Federal Reserve Bulletin, citations being as follows: 1938 Bulletin, page 762; 1940 Bulletin, page 393; 1941 Bulletin, page 618; and 1942 Bulletin, page 7.

"In the foreword to its plan, the Committee on Common Trust Funds states that it will be glad to offer such suggestions as it can in the development of any proposed plan and suggests that any bank developing a plan and having any questions or desiring assistance communicate with its secretary. It is understood that your bank is a member of the American Bankers Association and it is suggested that you may wish to consult the Committee on Common Trust Funds.

"Also, you may wish to discuss your proposal informally with officials of the Federal Reserve Bank of Chicago and if so, we suggest that you get in touch with Vice President A. J. Mulroney, to whom we are forwarding a copy of your letter and this reply. The documents enclosed with your letter are being retained for our files."

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

"For your information there is enclosed a copy of a letter of May 8, 1942, from Mr. Walter A. O'Brien, Trust Officer, La Salle National Bank, Chicago, Illinois, requesting the Board's comments with respect to documents entitled 'Universal Common Investment Fund' and 'Universal Trust Agreement'. There also is enclosed a copy of our

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"reply of this date which is self-explanatory. We wish to retain for our files the documents submitted by Mr. O'Brien and we are not having copies made since they are quite lengthy and undoubtedly Mr. O'Brien can furnish you copies if he desires to discuss this matter with you.

"As you will note from our letter to Mr. O'Brien, we did not attempt to comment upon the documents which he submitted. However, we believe that it will be apparent to you that the merits of some parts thereof are subject to doubt. Also, it may be stated for your own information that, in view of the information which the Committee on Common Trust Funds of the Trust Division of the American Bankers Association has made available through its booklet entitled 'Common Trust Funds' and otherwise, it would seem that there is no real need for the dissemination of documents such as those prepared by Mr. O'Brien for the assistance of banks that may be interested in common trust funds and that, in fact, the distribution of such documents for use in connection with the establishment of common trust funds might be confusing."

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 14, 1941, for printing of Federal Reserve notes of the 1934 Series in the amounts and denominations stated for the Federal Reserve Bank of Boston:

Denomination	Number of sheets	Amount
\$10	140,000	\$16,800,000
20	50,000	12,000,000
50	5,000	3,000,000
100	5,000	6,000,000"

Approved unanimously.

Thereupon the meeting adjourned.

P. Chester Morrie

Secretary.

Approved:

W. S. Coates

Chairman.