

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 19, 1942, at 10:40 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  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Parry, Chief of the Division of Security Loans  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Thomas, Assistant Director of the Division of Research and Statistics

Before this meeting the attention of the members of the Board had been called to a memorandum dated May 4, 1942, from Mr. Ransom suggesting that the Board consider the desirability of taking over from the Department of Commerce the research and statistical work being done in that Department in the field of consumer credit. The memorandum stated that the additional cost to the Board of taking over this work would probably be in the neighborhood of \$15,000 per annum, that a part of this amount would be spent in expanding work in this field in any event, and that if the Board were willing to approve in principle the transfer of this work to the Board's Division of Research and Statistics Mr.

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Ransom would be glad to undertake to negotiate it with Wayne C. Taylor, Under Secretary of Commerce.

There was attached to Mr. Ransom's memorandum a memorandum dated May 4, 1942, from Mr. Thomas which, after outlining the details of the proposed transfer, stated that, since the Board's interest in the field of consumer credit was likely to be a continuing and expanding one, it seemed advisable that research and statistical work on this subject be consolidated as completely as possible under the Board, and that in order to obtain the most effective results and avoid waste and confusion this should be done as soon as possible.

At the request of Mr. Ransom, Mr. Thomas amplified some of the comments made in his memorandum and stated that another approach to the matter would be to suggest to the Budget Bureau that the transfer be made under the authority of the President of the United States to transfer activities of Government departments and agencies.

There was unanimous agreement that the best method of approach would be to discuss the matter with Mr. Taylor, and, upon motion by Mr. Ransom and by unanimous vote, he was authorized to confer with Mr. Taylor for the purpose of negotiating the transfer.

At this point, Mr. Parry left the meeting.

Mr. Szymczak stated that in a letter dated May 7, 1942, from Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, submitting salaries proposed for the officers of the Bank for the year

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beginning June 1, 1942, the Board was advised that, subject to approval by the Board, the directors had fixed a salary for Mr. Leedy as President of the Bank at the rate of \$20,000 per annum, which would represent an increase of \$2,000 over the salary he was receiving at the present time. Mr. Szymczak said that the proposed salary was at the figure agreed upon by the Board as the maximum that should be approved for the President of the Federal Reserve Bank of Kansas City, that he recommended that the salary be approved, but that the matter was being presented for consideration before the letter to the Kansas City Bank advising of action by the Board on the salaries proposed by the directors was submitted to the Board for approval.

There was unanimous agreement that the salary proposed for Mr. Leedy should be approved.

Chairman Eccles stated that last week he attended a meeting in the office of the Secretary of the Treasury at which there were also present Messrs. Healy and Purcell, members of the Securities and Exchange Commission, and a member of the Commission's staff. The purpose of the conference, he said, was to review a list of pending capital issues, some of which were for the purpose of paying off bank loans which would leave the companies free to borrow again from banks at some future date for the purpose of building up inventories. The representatives of the Securities and Exchange Commission questioned whether this should be permitted for the reason that if the securities

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were not issued the investing public would be able to place in Government bonds the funds that would otherwise go into such issues. Chairman Eccles said he pointed out that if the securities were issued banks would be in a position to buy bonds which would offset the reduction in loans resulting from their retirement, and that the conclusion of the conference was that nothing need be done in the matter at the present time but that future capital issues of this character should be watched.

Chairman Eccles then stated that one of the matters of proposed legislation which had not been discussed with the Federal Advisory Council yesterday was the proposal that the Federal Reserve Banks be regrouped for the purpose of electing representative members of the Federal Open Market Committee. The members of the Board concurred in the opinion that there was no purpose in taking this matter up with the Council as the question whether an amendment should be recommended was a matter for decision by the Board.

Chairman Eccles went on to say that, in accordance with the action taken by the Board on February 17, 1942, he had had a draft of such an amendment prepared which he proposed to send to the Treasury together with drafts of amendments to section 19 of the Federal Reserve Act to permit changes in reserve requirements of central reserve city banks independently of the requirements for reserve city banks and to eliminate from section 19 the provision that no bank shall at any time make new loans or pay dividends while its reserves are deficient. It

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was understood that Chairman Eccles' Office would give the other members of the Board copies of his letter to the Treasury transmitting the proposed amendments.

Chairman Eccles raised for discussion the question whether a further recommendation should be made that the provisions of section 9 of the Federal Reserve Act be amended to permit a State bank with a capital as low as \$25,000 to become a member of the Federal Reserve System. It was pointed out that such banks were now eligible for membership in the System if they were in existence on June 16, 1933, and were situated in places the population of which did not exceed 3,000 inhabitants, or which were so situated and, while entitled to the benefits of insurance under section 12B of the Federal Reserve Act, increased their capital to not less than \$25,000. There was agreement that while such an amendment might be desirable it was a controversial one and, if proposed with the other amendments to which Chairman Eccles had referred, might prevent their adoption.

Mr. Morrill stated that he had received advice this morning from Mr. Lichtenstein, Secretary of the Federal Advisory Council, that at a separate meeting of the Council yesterday afternoon a position had been taken, on a vote of 11 to 1, in opposition to a short-term tap issue of Government securities.

At the request of Mr. Ransom, Mr. Goldenweiser discussed briefly the preliminary report attached to his memorandum of May 16, 1942, to

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Mr. Ransom of the results obtained from an interim tabulation of data from the commercial loan survey which was authorized by the Board covering the period of one month beginning April 16, 1942. A copy of Mr. Goldenweiser's memorandum and the accompanying report have been placed in the Board's files. At the suggestion of Mr. McKee, it was understood that Mr. Goldenweiser would endeavor to obtain figures of loans made by the Reconstruction Finance Corporation during the same period for the purpose of giving a more complete picture.

At this point, Messrs. Goldenweiser, Smead, and Thomas left the meeting.

At the request of Mr. Draper, Mr. Vest stated that under date of May 12, 1942, Chairman Eccles received from Oscar Cox, Assistant Solicitor General, an informal opinion in which the position was taken that there was no doubt as to the legality of Executive Order No. 9112 relating to loans and guarantees by the War and Navy Departments and the Maritime Commission for the purpose of financing the war effort. Mr. Vest also stated that since the passage of the sixth supplemental national defense appropriation bill (H.R. 6868) no question had been raised as to the legality of the Order.

There was unanimous agreement on the part of the members of the Board with a suggestion made by Mr. Draper that as long as no questions were being raised at the present time with respect to the legality of the Order no distribution need be made of Mr. Cox's informal opinion, with the understanding, however, that if any Federal Reserve Bank should ask for a copy it should be furnished.

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At this point, Messrs. Wyatt, Dreibelbis, 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 May 18, 1942, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held with the Federal Advisory Council on May 18, 1942, were approved unanimously.

Telegram to Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, 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, effective May 20, 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 but not to exceed 1 per cent above prevailing discount rate.
2. Remaining portion - rate charged borrower.

On advances taken over from financing institutions under commitments - rate charged borrower on portion for which Reserve Bank assumes risk.

On commitments to make 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 - 10 to 25 per cent of rate charged borrower with minimum of  $\frac{1}{2}$  per cent, provided that no commitment shall be given on a

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loan on which borrower is charged more than 5 per cent.

Approved unanimously.

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

"The Board of Governors approves the change in the personnel classification plan of the Federal Reserve Bank of Dallas as requested in your letter of May 8, 1942."

Approved unanimously.

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

"Referring your wires of May 14 and 15 regarding eligibility for membership of Union Bank of Michigan, Grand Rapids, Michigan, assuming all other factors satisfactory Board is willing to approve application from bank for membership subject to a condition that prior to admission to membership directors of bank shall take action necessary to create a reserve in amount of \$150,000 to be used only for payment of dividends in capital stock and that bank agrees to increase capital stock to at least \$500,000 immediately following next annual meeting of stockholders pursuant to authorization for such increase obtained from stockholders at that meeting."

Approved unanimously.

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

"This refers to your letter of May 11, 1942, regarding the request of BancOhio Corporation, Columbus, Ohio, for permission to purchase stock of The Union Trust Company of Newark, Ohio, with the intention of liquidating the bank and combining its acceptable assets with those of The Licking County Bank, Newark, Ohio, a subsidiary of BancOhio Corporation, The Licking County Bank to assume the deposit liabilities of The Union Trust Company.



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"From telephone conversations which you have had with members of the Board's staff, it appears that BancOhio Corporation has made the request for permission to purchase the stock in accordance with the informal agreement reached here last July in a conference with Mr. John A. Kelley, president of BancOhio Corporation, to the effect that the corporation would ascertain the Board's attitude in the matter before taking any steps toward acquisition of additional banks in the future.

"The Board has noted particularly your statements that, in your opinion, the present banking facilities of Newark are excessive and that the Supervising Examiner for the Federal Deposit Insurance Corporation and the State Superintendent of Banks are favorably inclined toward the proposed transaction. The proposed reduction of the number of banks in Newark, of course, should not be accomplished in a manner which would result in an undercapitalized position on the part of The Licking County Bank, and it is felt also that no plan should be approved which would impair the interests of the depositors of The Union Trust Company who waived a portion of their claims when that bank was reorganized in 1935. It is noted, however, that BancOhio Corporation intends to increase the capital of The Licking County Bank by not less than \$125,000, and presumably will purchase for cash the 2,400 shares of stock of The Union Trust Company which are held to protect the waiving depositors of that bank.

"Upon the basis of the information presented in your letter of May 11, 1942, in the circumstances the Board will interpose no objection to the purchase of stock of The Union Trust Company of Newark by BancOhio Corporation looking toward consummation of the plan as discussed in your letter, with the understanding that the corporation will make an adequate increase in the capital of The Licking County Bank in connection with the taking over by that bank of the business of The Union Trust Company, and that the 2,400 shares of stock of The Union Trust Company which are held to protect waiving depositors of the latter bank will be purchased for cash at an equitable price or otherwise provided for in such manner as will not impair the interests of the waiving depositors.

"This letter deals only with the request of BancOhio Corporation for permission to acquire stock of The Union Trust Company of Newark pursuant to the plan discussed in

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"your letter. At the appropriate time there should be submitted to the Board full information, together with your recommendation and the necessary opinions of your bank's counsel, regarding the proposed acquisition of assets and assumption of liabilities of The Union Trust Company of Newark by The Licking County Bank, in order that this phase of the matter may be considered by the Board pursuant to The Licking County Bank's condition of membership numbered 1, which provides that, except with the permission of the Board, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership."

Approved unanimously.

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

"Receipt is acknowledged of your letter of May 4, 1942, submitting the application of the Tobacco Exchange Bank, Edgerton, Wisconsin, for permission, under its applicable condition of membership, to exercise the fiduciary powers granted to it under its charter and the laws of the State of Wisconsin, which become operative at the discretion of the Banking Commission on fulfillment of certain requirements of law.

"In view of the information submitted by you, and other information available, the Board concurs in your recommendation that the application should be denied. This action is based upon the view that there is very little need for trust facilities in Edgerton at the present time and the fact that the bank has been regarded as under-staffed from an executive standpoint for some time past, and also that violations of State and Federal laws, and the Board's regulations, have been rather numerous since its admission to membership, during which time the proposed trust officer was its only active executive officer. While it is not believed that the trust business available to the bank would entail a great deal of work on the part of its personnel, the latter consideration seemed extremely important since the assumption of trust business,

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"even on a limited scale, entails definite responsibilities which may become serious under uninformed or lax administration.

"While the desire of many banks to handle trust matters primarily as an additional service to their customers is recognized, it is felt that they should not undertake to do so until they are equipped to handle trust accounts in such manner as to reduce to the minimum the risks inherent in such business. It is felt also that trust business should not be undertaken unless the bank has prospects for a sufficient volume to justify the establishment of a properly equipped trust department or the employment of personnel qualified by training and experience to engage in fiduciary activities.

"Please advise the bank of the Board's position with respect to its application."

Approved unanimously.

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

"Supplementing the Board's letter of May 16, 1942 and telegram of May 18, 1942, there are enclosed herewith the following documents relating to the approval by the War Department, Navy Department and United States Maritime Commission of a standard form of guarantee agreement for use in connection with operations under Executive Order No. 9112:

1. Photostat of a letter dated May 15, 1942 to all Federal Reserve Banks from Brigadier General A. H. Carter, Director, Fiscal Division, Services of Supply, War Department, Washington, D. C.
2. A copy of the form of Guarantee Agreement dated May 14, 1942, as approved by the War Department, together with an attached certificate of Mr. L. P. Bethea, Assistant Secretary of the Board of Governors, stating that such agreement is in the form as delivered to the Board of Governors with the letter from Brigadier General Carter referred to above.
3. Photostat of a letter dated May 16, 1942 to all Federal Reserve Banks from Mr. Frank M. Folsom, Assistant Chief in Charge of Procurement, Navy Department.

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"4. A copy of the form of Guarantee Agreement dated May 14, 1942, as approved by the Navy Department, together with an attached certificate of Mr. L. P. Bethea, Assistant Secretary of the Board of Governors, stating that such agreement is in the form as attached to the letter from Mr. Folsom referred to above.

5. Photostat of a letter dated May 15, 1942 to all Federal Reserve Banks from Mr. R. E. Anderson, Director of Finance, United States Maritime Commission.

6. A copy of the form of Guarantee Agreement dated May 14, 1942, as approved by the United States Maritime Commission, together with a certificate of Mr. L. P. Bethea, Assistant Secretary of the Board of Governors, stating that such agreement is in the form as delivered to the Board of Governors by the United States Maritime Commission in accordance with the letter from Mr. Anderson referred to above.

"With respect to the letters from Brigadier General Carter of the War Department and Mr. R. E. Anderson of the Maritime Commission, mentioned above, the Board has received from the War Department and the Maritime Commission confirmation of its understanding that the reference in each of those letters to 'Guarantee Agreement with Financing Institution (Other Than Federal Reserve Bank)' should correctly refer to 'Guarantee Agreement'. For your information in this connection there are enclosed a copy of a memorandum dated May 18, 1942, from Lt. Colonel Paul Cleveland, Financial Contracting Officer, War Department, and a copy of a letter dated May 18, 1942, from Mr. B. Barrett Griffith, who is Assistant to the Director of Finance, United States Maritime Commission.

"The standard form of Guarantee Agreement which has been approved by the War Department and Navy Department and by the Maritime Commission was prepared after consultation between representatives of those agencies and representatives of the Board of Governors and the War Production Board and after careful consideration of the many helpful suggestions received from the Federal Reserve Banks. The Board wishes to take this opportunity to express its appreciation for the cooperation and assistance rendered by the Federal Reserve Banks in this matter.

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"Inasmuch as the form of guarantee agreement has now been adopted by all of the agencies concerned, it is suggested that you may wish to have a supply of the form of agreement printed or otherwise reproduced for the use of your bank."

Approved unanimously.

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

"Referring to the Board's telegram of May 18, 1942, there is enclosed herewith one signed copy of instructions of the Navy Department to all Federal Reserve Banks, dated May 13, 1942 signed by the Honorable James V. Forrestal, Acting Secretary of the Navy, which have been issued pursuant to Executive Order No. 9112, of March 26, 1942, after consultation with the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"Your letter of April 14 regarding an alleged violation of Regulation W reported to you by Mr. Morris Funt, Montgomery, West Virginia, was acknowledged on April 18; but we regret that the pressure of work in connection with the revision of Regulation W has prevented a further reply until this time.

"The question relates to the use of pay roll deduction orders and scrip as the down-payment in stores owned by the employer. The complaint comes from competing non-company stores.

"As you point out, the practice of Koppers Stores Inc., does not conflict with the provisions of section 11(c) (section 8(f) of the old regulation) since daily collections of the down-payment orders are made.

"However, you are informed that other company stores in Montgomery use scrip which is not redeemed daily, but only once every month. Sufficient information has not been furnished to make it possible to determine whether,

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"as a legal matter, the receipt of the scrip by the store effects an immediate cancellation pro tanto of the debt for wages, or whether two separate debts (one for wages owed to the employee and one for the down payment owed by him) continue to exist until the end of the month. Assuming, however, that the latter is the case, the down payment requirement of the regulation would not be satisfied by the use of the scrip.

"We trust that these comments will be of some assistance to you in disposing of the matter. It may be that you will decide that in the circumstances the matter should be referred back to the Federal Reserve Bank of Richmond."

Approved unanimously.

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

"Retel May 15, Board agrees that upholstery is a listed article since it includes yard goods and pricing would also include installation charges."

Approved unanimously.

Letter to Mr. Paul V. House, Attorney at Law, Newark, Ohio, reading as follows:

"Your letter of May 15 to Honorable J. Harry McGregor regarding Regulation W was referred by him to the Board of Governors with the request that the information be sent to you direct as soon as possible.

"A charge account is in default (under section 5(c) of the Regulation) if any article (whether listed or unlisted) has not been paid for by the 10th of the second month following the month when the article was sold. Thus an account might be in default for failure to pay for food which had been charged in the account.

"However, the Regulation would not prevent a customer from charging food or any other unlisted article to the account even though the account were in default. The Regulation would only prevent him from charging a listed article. As you surmise, the listed articles are those listed in section 13(a) of the Regulation.

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"The administration of the Regulation has been decentralized and therefore if you have any further inquiries you may find it more convenient to address them directly to the Federal Reserve Bank of Cleveland, Cleveland, Ohio."

Approved unanimously.

Letter to Mr. R. H. Stout, President of the Morris Plan Bankers Association, Washington, D. C., reading as follows:

"You are correct in your understanding expressed in your letter of May 9 that the elimination of the provisions of section 4(d) of Regulation W, as they formerly stood, was aimed principally at the selling of manufactured articles such as stokers, on terms that would not require any monthly payments at all for several months after the sale.

"It was recognized that the change would somewhat affect spring and summer purchases of coal, in view of the fact that under previously applicable requirement coal loans could have been written so that payments would not begin until sometime in the fall. It was believed, however, that the change would not interfere in any material degree with the program for encouraging early purchases of coal. Loans for that purpose are by no means prohibited. They may extend over a period of 12 months. The revision of the regulation merely made the requirement that payments start promptly. This did not seem to be an oppressive condition and it certainly is in harmony with the President's program that debt be liquidated as rapidly as possible. For these reasons the somewhat different status of coal as contrasted with, say, oil burners did not appear to justify the Board in complicating the regulation by a special exemption."

Approved unanimously.

Letter to Messrs. T. R. and W. S. Freeman, Washington, D. C., reading as follows:

"This refers to your two letters of May 6 regarding the effect of Regulation W upon the business in which you are engaged, which you describe as follows:

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"We finance the buying of bargains on what we call the 6/10/10 plan. That is, 6 months credit, 10% profit, \$10. minimum profit to us. Durable goods only, changing hands at a sacrifice price level."

"The form of contract which you enclose is a rental-purchase contract, and the transaction is therefore a 'sale' within the meaning of section 2(d) of the Regulation. Accordingly, the transaction must comply with the provisions of section 4 if the article being sold is a 'listed article'."

"Even if the nature of the transaction were such that it involved a loan by you, rather than a sale, the amount of the loan would be limited by section 6(a) if the article were a 'listed article'. If the article were not a 'listed article' the loan would be subject to section 6(b)."

"The administration of the Regulation has been decentralized and therefore if you have any further inquiries they should be addressed to the Federal Reserve Bank of Richmond, Richmond, Virginia."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morril  
Secretary.

Approved:

W. S. ...  
Chairman.