

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 22, 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

Chairman Eccles read the following letter dated May 19, 1942, which he had received on May 21, 1942, from Secretary of the Treasury Morgenthau:

"In an examination of the Continental Illinois National Bank and Trust Company of Chicago, a situation has come to light about which I think you should be advised. I am enclosing herewith excerpts from the examination report, from which you will note that Mr. Frank J. Lewis, Chairman of the Board of the Federal Reserve Bank of Chicago, has been placing large subscriptions to Government securities, borrowing a part or all of the ten per cent down payment required of the Continental Bank, and then selling his securities received on allotment to that bank for a substantial profit.

"I shall welcome an expression relative thereto from the Board of Governors."

The excerpt accompanying Secretary Morgenthau's letter was also read, and in the discussion which ensued all of the members of the Board were agreed that, while apparently not illegal, the transactions referred to were highly unethical in view of the position of Mr. Lewis as Class C Director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago which, in addition to its relation to the System open market account, was fiscal agent of the Treasury in connection with the issuance and marketing of Government securities, and in view of the

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further fact that the transactions involved loans by a member bank the chairman of which was also a director of the Federal Reserve Bank of Chicago.

At the conclusion of the discussion it was agreed:

1. That Chairman Eccles should communicate with Mr. Lewis as soon as possible for the purpose of arranging with him to come to Washington in order that the Board might obtain his resignation;

2. That Mr. Cagle, Assistant Chief of the Division of Examinations, should go to Chicago as soon as possible, preferably arriving there on the morning of Monday, May 25, 1942, to make an investigation with a view to determining the possibility of other persons or institutions, not mentioned in the excerpt from the report of examination of the Continental Illinois National Bank and Trust Company, having knowledge or being implicated in any way;

3. That Chairman Eccles should advise President Young of the Federal Reserve Bank of Chicago of these developments; and

4. That Chairman Eccles should advise Secretary Morgenthau of the receipt of his letter and the action taken by the Board.

At this point, Messrs. Bethea and Carpenter, Assistant Secretaries, and Mr. Clayton, Assistant to the Chairman, came into the meeting, and 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 21, 1942, were approved unanimously.

Telegrams to Messrs. Hays and Dillard, Secretaries of the Federal Reserve Banks of Cleveland and Chicago, respectively, and Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, stating

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that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on May 20 and by the Federal Reserve Banks of Cleveland and Chicago on May 21, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, 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 23, 1942:

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

Commitments to make advances direct to industrial or commercial businesses - 10 to 25 per cent of loan rate with minimum of $\frac{1}{2}$ per cent.

Advances to financing institutions, including loans taken over from financing institutions under commitments:

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

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

Approved unanimously.

Telegram to Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, 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

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rates of discount and purchase in the Bank's existing schedule, effective May 23, 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.

Memorandum dated May 19, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties, James Knight be appointed as an Assistant Federal Reserve Examiner on a temporary basis, with salary at the rate of \$1,600 per annum, and with official headquarters at Chicago, Illinois.

By unanimous vote, Mr. James Knight was appointed on a temporary basis as an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve

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System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Chicago, Illinois, and with salary at the rate of \$1,600 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring to your letter of May 15, 1942, the Board of Governors approves payment of salaries to the following officers of the Bank for the period July 1, 1942, to May 31, 1943, inclusive, at the rates fixed by your Board of Directors:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
H. C. Core	Personnel Officer	\$7,000
H. G. McConnell	Assistant Vice President	7,000
W. H. Turner	Assistant Cashier	5,000
E. B. Larson	Assistant Cashier	5,000
O. W. Ohnstad	Auditor	5,000"

Approved unanimously.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of May 7, 1942, the Board of Governors approves payment of salaries to the following officers of the Bank for the year beginning June 1, 1942, at the rates fixed by your Board of Directors:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
H. G. Leedy	President	\$20,000
H. O. Koppang	First Vice President	13,500
J. W. Helm	Vice President and Cashier	13,200
D. W. Woolley	Vice President and Secretary	8,500
John Phillips, Jr.	Assistant Vice President	8,000
E. P. Tyner	Assistant Cashier	7,200
M. W. E. Park	Assistant Cashier	6,500
Wm. Phillips	Assistant Cashier	5,500
T. Bruce Robb	Manager, Research and Statistical Dept.	6,000
S. A. Wardell	Auditor	8,500

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<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Denver Branch</u>		
J. E. Olson	Managing Director	\$10,000
S. A. Brown	Cashier	5,400
H. L. Stempel	Assistant Cashier	3,600
<u>Oklahoma City Branch</u>		
R. L. Mathes	Cashier	\$ 5,000
L. B. Davenport	Assistant Cashier	3,600
<u>Omaha Branch</u>		
L. H. Earhart	Managing Director	10,000
G. A. Gregory	Cashier	6,000
O. P. Cordill	Assistant Cashier	4,800

"The Board has requested me to advise you that it is not prepared at this time to approve the salary fixed by your Board of Directors for Mr. G. H. Pipkin, Managing Director, Oklahoma City Branch, but approves payment of a salary to him during the year beginning June 1, 1942, at the rate of \$8,500 per annum, if fixed by your Directors at such rate."

Approved unanimously.

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

"In answer to your wire of today. Any interest rates charged on loans under Executive Order 9112 in excess of 5 per cent whether after maturity or interest on interest, or otherwise, will be regarded as a violation of the maximum rates established by the Board."

Approved unanimously.

Telegram to Mr. Longmire, Director of the War Production Loan Agency of the Federal Reserve Bank of St. Louis, reading as follows:

"Retel May 21, as standard procedure, would prefer that Form F.R. 577 be forwarded to Board on date guarantee is executed and mailed or delivered to financing institution. In case you refer to, it will not now be necessary to prepare Form F.R. 577 covering \$7,500 guarantee of loan to Illinois Tool and Machine Company. Suggest, however, that notation of cancellation of original guarantee be made on report covering \$4,800 guarantee. Such guarantee may be assigned number previously assigned in your office to \$7,500 guarantee."

Approved unanimously.

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

"There is enclosed herewith a copy of a letter from Mr. W. J. Brett, Editor, Fur Trade Review, of May 15, 1942. Your cooperation in answering Mr. Brett will be appreciated.

"Apparently Mr. Brett's inquiry relates to section 12(d) covering lay-away plans. However, it seems obvious that if delivery of a listed article is not made until full payment has been received, no extension of credit would be involved. It would also seem unobjectionable to delay delivery of a listed article until payments by the customer equalled the required down payment provided the remaining balance be put on an instalment basis complying with the Regulation.

"Mr. Brett has not been advised of our reference of his inquiry to you."

Approved unanimously.

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

"Reference is made to your letter of May 14, 1942, in which you call attention to the fact that, under Regulation W as it now stands, a dealer may sell a house trailer on whatever instalment terms he chooses, while a bank or other lending institution is limited to a maximum maturity of 12 months if it makes a loan to purchase a trailer in an amount of less than \$1,500. You suggest that the Board might give consideration to the amendment of the regulation so that such loans would be exempt.

"The Board is glad to have this suggestion and will give it careful study. It relates to a problem which is before several other government agencies and they will be consulted. In the meanwhile, if you develop any further facts on the subject the Board would like to have them brought to its attention."

Approved unanimously.

Letter to the Attorney General, reading as follows:

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"As you know, pursuant to the authority contained in the Executive Order issued by the President on August 9, 1941 (Federal Register, August 13, 1941, page 4035), the Board of Governors of the Federal Reserve System some time ago issued its Regulation W relating to consumer credit.

"The Board has felt that persons subject to the regulation should have a reasonable time within which to familiarize themselves with the application of its provisions and up to this time, therefore, the Board and the Federal Reserve Banks have relied largely on educational activities to bring about compliance with the requirements of the regulation. However, it is felt that it is now appropriate for the Board and the Federal Reserve Banks to take additional steps to deal with violations of the regulation. Accordingly, the Board has prepared a program outlining steps which it feels at this time should be taken to enforce compliance with the requirements of Regulation W. There is enclosed a copy of this program, together with a copy of a letter which the Board proposes to send to the various Federal Reserve Banks, and it will be appreciated if you will advise whether or not your office has any objection to the Board's program as outlined in these documents."

Approved unanimously, together with the following letter to the Presidents of all the Federal Reserve Banks, which it was understood would be sent upon receipt of advice from the Department of Justice that it had no objection to the proposed plan of enforcement:

"Under date of October 10, 1941 (S-368), the Board wrote you with regard to obtaining corrections of apparent violations of Regulation W. It was assumed that most violations were the result of inadvertence or misunderstanding as to the meaning of the provisions of the regulation.

"Since that time many Registrants have had an opportunity to familiarize themselves with the regulation and there may be instances where violations are willful rather than the result of inadvertence or ignorance. The Board feels that it has a responsibility to provide such a program of enforcement as will bring about general compliance with the requirements of the regulation and in some degree prevent willful violations. To this end, the Board has

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"approved a program of enforcement, a copy of an outline of which is enclosed. Certain parts of the program call for action by the various Federal Reserve Banks, and it is requested that your bank proceed in accordance with this program.

"After consultation with representatives of the Department of Justice it has been decided that, for the present at least and in the absence of exceptional circumstances, violations will not be reported to the Department of Justice in the first instance. However, in cases where the circumstances warrant, proceedings will be instituted, as set forth in the outline, to determine whether or not the Registrant's license should be suspended. The Board may wish to bring some of the cases in the latter category to the attention of the Department of Justice for possible prosecution by that Department. At the present time, however, it is desirable that every effort be made to secure compliance on the part of persons having obligations under the regulation, and it is contemplated that criminal action will be taken only in cases involving willful and aggravated violations.

"In connection with subdivision II(B) of the enclosed program relating to proceedings for suspension of license in the case of willful violations, it is contemplated, of course, that if any case should be discovered where the failure of a person subject to Regulation W to comply with the registration requirements of the regulation is apparently willful, you will make a full report of the facts in such case to the Board in order that it may bring the case to the attention of the Department of Justice.

"With respect to subdivision I(A)(3) of the enclosed program relating to solicitation of the cooperation of local supervisory agencies, it is suggested that your bank not take steps to work out a program with such agencies until the Board has reached agreement with the Federal Deposit Insurance Corporation, the Comptroller of the Currency, etc., with respect to their cooperation as mentioned under subdivision I(A)(2). In this connection, it may be mentioned that it is contemplated that in our contact with the National Association of Supervisors of State Banks we will solicit their cooperation at this time only as to banks. However, it is believed that in a number of States the bank supervisory agency also

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"supervises and examines other classes of lenders subject to Regulation W. We will advise you as soon as practicable as to the agreements we have reached with the Federal Deposit Insurance Corporation, the Comptroller of the Currency, etc., and in the meantime you may wish to contact the bank supervisory agencies and any other similar agencies in your district to determine what lenders subject to Regulation W other than banks come under their jurisdiction.

"The Board desires to emphasize that the enclosed program of enforcement is not intended to diminish in any way the educational activities of your bank with regard to the requirements of Regulation W through trade associations, Better Business Bureaus, the press, by furnishing speakers to interested groups, or by any other appropriate means."

Letter to Mr. L. P. Harrington, Secretary, Phil A. Halle, Memphis, Tennessee, reading as follows:

"This will acknowledge your letter of May 15, 1942, referring to a problem you are faced with under the provisions of the Board's Regulation W concerning charge accounts. You point out that you close your books on the 25th of each month and purchases made during the last five days of the month are billed with the following month's purchases.

"You will understand, of course, that the regulation does not require a merchant to bill as of the end of the calendar month. It merely provides that if the purchases of any calendar month are not paid for by the 10th day of the second calendar month thereafter the account is in default and must be treated as provided in the regulation.

"Some merchants, we understand, have come to the conclusion that it would be more satisfactory for the merchant and the customer to bill as of the end of the month while others have found ways of continuing their present practices but informing their customers of the regulation's requirements. Even if you did not change your own practice at all, it would seem that the customer would receive a bill for these items prior to the time that he must pay for them if he is to avoid default.

"You may be sure that this problem is having our careful study, but our study so far indicates that the present rule is probably preferable on the whole to any of the available alternatives.

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"Administration of Regulation W is decentralized among the Federal Reserve Banks and their branches, and since you are in the district served by the Memphis Branch of the Federal Reserve Bank of St. Louis, it is suggested that any further communication you may wish to send on the subject be addressed to that office. The address is 3rd and Jefferson Streets, Memphis, Tennessee."

Approved unanimously.

Letter to Mr. John Burgess, Vice President of the Northwestern National Bank and Trust Company, Minneapolis, Minnesota, reading as follows:

"The Board wishes to thank you for the constructive suggestion in your letter of May 12, 1942 that the Board publish a pamphlet which would tell persons subject to Regulation W what they 'can' and 'can't' do under its terms.

"The Board is particularly concerned about the problem of educating Registrants as to the regulation's requirements. It recognizes that a regulation which has the force of law and must be worded accordingly is sometimes difficult for a person not a lawyer to understand.

"Much attention has been given to this problem, and a booklet of the kind you suggest has been considered. No final conclusion has been reached. There are several difficulties, however. One is that the statements made can never be quite as precise or complete as the regulation. Another is that the regulation covers a number of different types of business, and what is of interest to one type is not of interest to another.

"The Board has seen much evidence to indicate that informed persons in each branch of the trade would know best how to select and edit the questions and answers of most significance to that branch. In the banking field, the booklet brought out by the American Bankers Association when Regulation W was first issued seems to have been very useful -- but we have been told that they doubt the need for revising that booklet since the regulation now seems to be better understood than it used to be.

"An important factor in the situation is the decentralization of the administration of Regulation W among the Federal Reserve Banks and their branches, each of which is

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"expected to use appropriate means of educating the Registrants in its own territory.

"You may be sure that the problem will have continuing study on the part of the Board and its staff."

Approved unanimously.

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

"Pursuant to the request contained in the Board's letter S-202 of January 24, 1940, the Federal Reserve Banks have been furnishing the Board of Governors with monthly reports, form F.R. 494, of Federal Reserve Bank officers' and certified checks which apparently had been held for a period by other banks, had been pledged as collateral for deposits, or had been turned over to bank depositors who apparently had no intention of promptly presenting them for payment. As indicated in that letter, the reports were requested in order to afford some idea of the effect of this practice upon the amount of deposits subject to reserve requirements under Section 19 and to insurance assessments under Section 12B of the Federal Reserve Act.

"These reports are no longer needed for the purposes indicated and, accordingly, they need not be prepared hereafter."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morris
Secretary.

Approved:

W. S. Scales
Chairman.