

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 27, 1942, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Leonard, Assistant Chief of the
Division of Examinations

Chairman Eccles stated that in accordance with the action taken at the meeting of the Board yesterday afternoon a draft of letter had been prepared to Frank J. Lewis, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago, requesting his immediate resignation as Class C director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago, but that the letter had not been sent for the reason that Mr. Lewis had agreed to come to Washington on Monday, June 1, 1942.

Reference was then made to the informal discussions which the members of the Board had had regarding the selection of an individual to serve as the head of a new division of the Board's staff to handle personnel matters at the Board and to further the plan for executive development (career system) at the Board and the Federal Reserve Banks.

Chairman Eccles stated that, as authorized by the Personnel Committee,

5/27/42

-2-

he had discussed the matter with Mr. Leonard who had expressed his willingness to undertake the work, if the Board so desired, but wished before the appointment became definite to meet with the Board in order that there might be an understanding of what was desired by the Board as a whole and by the members of the Board. He then asked Mr. Leonard to open the discussion.

After expressing appreciation of the offer, Mr. Leonard said that he had sought the meeting for the following three reasons which he considered essential:

1. To obtain at the outset an understanding and clear directions as to the nature of the general objectives, the general responsibilities, and the general authorizations of the new division.
2. To obtain, in particular, a clear understanding as to the allocation of functions and responsibilities between the new division and other divisions of the Board's staff.
3. To be assured of the Board's support in the work.

A discussion ensued of a tentative draft of the duties of the proposed new division which had been prepared by Mr. Leonard, and during the discussion reference was also made to memoranda on the same subject which had been prepared independently by Messrs. Morrill and Smead, copies of which have been placed in the Board's personnel files. Chairman Eccles stated that the three memoranda were not inconsistent with each other.

At the conclusion of the discussion,
it was voted unanimously:

5/27/42

-3-

(1) To create, effective July 1, 1942, a new division of the Board's staff to be known as the "Division of Personnel Administration".

(2) To approve the following statement of general instructions for the new division:

"Organization

- "1. The new Division will be an independent Division responsible directly to the Board and operating under the immediate supervision of designated members or committees of the Board. It will have the same general status in relation to the Board as any existing major Division and be subject to the same general rules and regulations.
- "2. The head of the new Division should work in close cooperation with the heads of the other Divisions but will have administrative responsibilities only over the personnel of the new Division and not over that of the other Divisions.

"Functions

- "A. Relating to work with the Board's staff
 1. To centralize the personnel work including -
 - a. Recruitment of personnel and the investigation and study of the qualifications of applicants.
 - b. Transmission with recommendation of the new Division of all requests for appointments to the staff, salary adjustments, transfers, separations, retirements, leave, and other recommendations for actions relating to Board employees. Appointments to the staff will be made upon the recommendation of the head of the Division concerned, but before making its recommendation the new Division will be expected to inquire into the need for filling or creating the position, as well as into the qualifications of the proposed appointee.

5/27/42

-4-

- "c. Absorption of the Personnel Section and First Aid Unit of the Secretary's Office and assumption of the functions of the Personnel Officer and of the Chairman of the staff Committee on Personnel Classification.
2. To work toward uniformity of treatment of the personnel, particularly as between divisions, in such matters as salary, promotion, leave, etc.
 3. To maintain continuing review of working conditions and other personnel problems and to further the maintenance of good employee relations.
 4. To serve as the first point of contact of such committee or committees as the employees may designate from time to time for consultation with the Board's personnel committee in regard to personnel policies in which the employees may be concerned.
 5. To work for the crystallization and establishment of personnel policies.
 6. To work towards making the development of the career system effective within the Board's organization, in accordance with the System program.
- "B. Relating to the Federal Reserve Banks
1. To further the development among the Reserve Banks of the Executive Development Plan (career system).
 2. To encourage sound personnel policies among the Reserve Banks.
 3. To maintain a continuing review of compensation of officers and employees of the Federal Reserve Banks from the standpoint of the Board's responsibility for their approval, assuming in this connection the functions heretofore performed in the Division of Bank Operations.
 4. To work for the crystallization and establishment of personnel policies relating to the matters referred to in paragraph 3 above.
 5. To develop, and report on, possibilities for appointments of Class C directors and of directors at the branches of the Federal Reserve Banks.

5/27/42

-5-

"C. Relating to the Retirement System

1. To review and prepare for consideration matters and questions coming before the Board of Governors pertaining to the Retirement System."

(3) To appoint Robert F. Leonard as Director of the new division, effective July 1, 1942, to relieve him of his duties as Assistant Chief of the Division of Examinations as soon as possible to enable him to work on the establishment of the new division, and to increase his salary to the rate of \$12,000 per annum, effective as of the date upon which he is relieved of his present duties.

(4) To have prepared and submitted to the Board for approval a budget covering the expenses of the new division.

At this point Messrs. Smead and Leonard left the meeting, and Messrs. Bethea and Carpenter, Assistant Secretaries, entered 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 26, 1942, were approved unanimously.

Memorandum dated May 26, 1942, from Mr. Smead, Chief of the Division of Bank Operations, submitting the resignation of Mrs. Ellen C. Thomas as a clerk in that Division, to become effective as of the close of business on May 31, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

5/27/42

-6-

"Referring to your letter of May 21, 1942, the Board of Governors approves the payment of a salary at the rate of \$6,000 per annum to Mr. John J. Clarke, an employee in the Legal Department assigned to the Foreign Property Control Department.

"It is noted in your letter that, in the light of Mr. Clarke's performance since his employment, it is probable that he will be retained as a member of the Bank's permanent staff. In this connection, it will be appreciated if you will submit for the Board's approval a Form A page covering the position occupied by Mr. Clarke, since, in accordance with the Board's instructions relating to the operation of personnel classification plans (B-315), the personnel classification plan of each Federal Reserve Bank should cover all nonofficial positions in the Bank."

Approved unanimously.

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

"In accordance with the request contained in your letter of May 22, the Board approves the appointment of Chalmers L. Davies as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us of the date upon which the appointment becomes effective and also as to the salary rate."

Approved unanimously.

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

"Until further notice interest, fees, and other charges derived by War Department from loans and guarantees, referred to in Section 6, page 7, of instructions to all Federal Reserve Banks, dated April 8, 1942, should be credited to General Account of U. S. Treasurer for account of Colonel W. M. Dixon, Finance Officer, U. S. Army, Symbol 28-418. CD, Form 6599, should contain brief description of item credited. Original of CD should accompany transcript to Treasury and carbon should be

5/27/42

-7-

"mailed to Colonel W. M. Dixon, Finance Officer, U. S. Army, 801 Channing Place, Northeast, Washington, D. C. You will be advised later with respect to accounts to be credited for interest and fees collected on behalf of Navy Department and Maritime Commission."

Approved unanimously.

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

"Your wire May 7. Mere fact that all or portion of charge account is considered bad debt and charged off or absorbed in reserve would not relax prohibition of section 5(b) of Regulation W if charge account is in default under section 5(c) and default has not been cured by one of methods in section 5(d). Charge off or absorption in reserve would not abolish 'indebtedness' referred to in section 2(g). However 'indebtedness' under 2(g) does not include indebtedness which is legally unenforceable."

Approved unanimously.

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

"Your wire May 22. Loan to American Legion not exempt under section 8(1) Regulation W."

Approved unanimously.

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

"Retel May 18. Section 8(k) of Regulation W does not exempt a new loan made by a bank after May 6 on the security of the loan value or cash surrender value of life insurance policy if loan is not for purpose of enabling borrower to pay off a policy loan made by the insurer prior to May 6."

Approved unanimously.

5/27/42

-8-

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

"Your wire May 20. Section 10(b) (of Regulation W) is applicable to consolidations of instalment obligations resulting from conversions of charge accounts, and new instalment sales may be consolidated with such obligations. Board appreciates that in some cases payment on new purchase is postponed, but requirement in clause (i) of Option 2 that payments be as large as on the old obligations being consolidated is intended to prevent serious avoidance by this means."

Approved unanimously.

Letter to Messrs. Walter Womack and Paul A. Mason, Long Beach, California, reading as follows:

"The President has referred to the Board your letter of May 8, 1942 inasmuch as the Board is responsible for the administration of the controls over consumer credit.

"You suggest that the Federal government lend its support to a plan by which a central bureau would be set up to act as a coordinating agent between employees in defense industries and their creditors.

"It would seem, however, that the problems to which your plan is addressed would be a matter of community concern in the areas where it exists and that therefore the question what solution would be most desirable could best be determined by the local legal aid offices, credit bureaus, or other similar organizations.

"Your interest in this matter is very much appreciated."

Approved unanimously.

Letter to Mr. Carter B. Cordner, Executive Vice President of the First Thrift of Los Angeles, Los Angeles, California, reading as follows:

"We wish to thank you for your letter of May 19, 1942, which reports criticisms of Regulation W that have

5/27/42

-9-

"come to your attention and expresses the feeling that the regulation should be liberalized.

"In view of the purposes for which, under the President's Executive Order of August 9, 1941, control of consumer credit has been undertaken, it was inevitable from the beginning that the regulation would have to be broadened and tightened from time to time. Whenever that is done, it is quite natural that there should be some additional protests, but the Board has hoped that in times like those which have followed Pearl Harbor people generally would understand and support the actions taken. Notwithstanding exceptions such as your letter mentions, this seems to have been the case.

"You will have noticed that there are exemptions in Regulation W which are designed to take care of the most meritorious instances of necessitous loans. On the other hand, the need to conserve every resource which can be utilized for war purposes is increasing so rapidly that a general liberalization of the regulation could not be justified at this time."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Norrie
Secretary.

Approved:

W. S. Cullen
Chairman.