A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 29, 1942, at 11:00 a.m.

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

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 28, 1942, were approved unanimously.

Telegram to Mr. Paddock, President of the Federal Reserve Bank of Boston, 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 29, 1942:

On advances direct to industrial or commercial organizations, including advances made in participation with other financing institutions - 2½ to 5 per cent.

On advances to financing institutions:
1. Portion for which the institution is obligated - rate charged borrower less commitment fee.
2. Remaining portion - rate charged borrower.

The telegram also stated that it was assumed the present commitment rate

applied to commitments direct to borrowers and that on commitments to financing institutions no commitment would be granted on a loan on which the borrower was charged more than 5 per cent.

Approved unanimously.

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

"Following receipt of your letter of May 21 submitting certain changes in the discount rates of your Bank, Governor Draper advised you over the telephone that up to that time eight of the Federal Reserve Banks had established a range of rates of from 2-1/2 to 5 per cent on advances made direct to borrowers under the provisions of Section 13b of the Federal Reserve Act and that he hoped you would consider the matter further and write him with respect to your views.

"Upon receipt of your letter of May 25, in which you state you did not and do not believe that there is any need for, or any important purpose to be served by, reducing the upper limit of your range of rates on loans under Section 13b from 6 to 5 per cent, the matter was given further consideration. On Thursday, May 28, Mr. Treiber called Mr. Morrill and stated that your Directors would like to be informed of the action of the Board of Governors on the changes in discount rates submitted in your letter of May 21, 1942. Promptly thereafter the Board considered this matter, and the members were of the unanimous opinion that the Board should not approve a maximum rate of 6 per cent for advances under Section 13b. Mr. Treiber was so advised over the telephone, as we understood advice of the Board's action was desired while your Directors were still at the Bank.

"When the question of rates to be charged on advances and guarantees to be made pursuant to Executive Order 9112 was under consideration, representatives of the War Department, Navy Department, Maritime Commission, Federal Reserve Banks and Board of Governors all concurred in the suggestion that the maximum rate charged on loans made or guaranteed pursuant to the provisions of the Executive Order should be 5 per cent. The Board is not unmindful of the statements

"contained in your letters of May 21 and May 25, but is of the opinion that during the present emergency when every effort is being made to keep prices and other costs at a minimum in furtherance of the war program, it would not be justified in approving a rate as high as 6 per cent for advances by the Federal Reserve Banks. You state, in your letter of May 21, that 'The legal rate in both New York and New Jersey is 6%, which places a ceiling on this rate. We do not believe that our lending practice under Section 13b should be used to try to prescribe a different loan maximum.' It does not seem to the Board that the fact that a state legislature has fixed a maximum loan rate of 6 per cent should in any way indicate that a Federal Reserve Bank should charge a similarly high rate on advances. As you know, certain states have fixed 8 per cent as the maximum legal rate of interest. You, no doubt, will agree that it would be unrealistic for a Federal Reserve Bank to fix as high a rate as 8 per cent on advances under Section 13b.

"As of today ten of the Federal Reserve banks have fixed a maximum rate of 5 per cent on advances under Section 13b. In your letter of May 25 you state that a range of 2-1/2 to 6 per cent is more nearly in accord with the facts than a range with a lower ceiling and is wholly consistent, it seems to you, with a 5 per cent upper limit on guaranteed loans under Regulation V. While the Board appreciates your views in this respect, it cannot but feel that a realistic approach to this problem calls for a maximum rate of not in excess of 5 per cent. At the present time all Federal Reserve Banks have a 1 per cent rate on advances to member banks under Sections 13 and 13a. While the Board does not consider that complete uniformity in rates is essential at all times, it does feel that it would be particularly unfortunate for the New York Bank to have a maximum rate of 6 per cent on advances under Section 13b, while the other Federal Reserve Banks have a maximum rate of 5 per cent on such advances. A higher rate would not be consistent, in the opinion of the Board, with the whole economic program of the Government in the war effort."

Approved unanimously.

Secretary's Note: The reference in the second paragraph of the letter to action by the Board related to informal consideration given to the matter by members of

the Board on May 28, 1942, following receipt of Mr. Treiber's telephone call.

Telegram to Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, 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 29, 1942:

On advances direct to industrial or commercial businesses, including advances made in participation with other financing institutions - 2½ to 5 per cent.

On advances to financing institutions:
1. Portion for which financing institution is obligated - 2½ to 5 per cent.
2. Remaining portion - 2½ to 5 per cent.

On commitments to make advances:
1. Direct to industrial or commercial businesses - 10 to 25 per cent of loan rate with minimum of ½ per cent.
2. To financing institutions - 10 to 25 per cent of loan rate with minimum of ½ per cent provided no commitment shall be given on a loan on which borrower is charged more than 5 per cent.

Approved unanimously.

Telegrams to Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Gilbert, 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 26, by the Federal Reserve Banks of Atlanta, St. Louis, Minneapolis, and Dallas on May 28, 1942, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their existing schedule.

Approved unanimously.

Memorandum dated May 28, 1942, from Mr. Nelson, Assistant Secretary, recommending that Mrs. Margaret C. Pauszek be appointed as a stenographer in the Secretary's Office, with salary at the rate of $1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated May 29, 1942, from Mr. Nelson, Assistant Secretary, submitting the resignation of George B. Newell as a page in the Secretary's Office, to become effective as of the close of business on June 19, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to the board of directors of "The Peoples Banking Company of Lewisburg", Lewisburg, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, 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 Cleveland.

Approved unanimously, for transmission through the Federal Reserve Bank of Cleveland.

Letter to the board of directors of "The First State Bank of West Manchester", West Manchester, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, 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 Cleveland.

Approved unanimously, for transmission through the Federal Reserve Bank of Cleveland.

Letter to the board of directors of the "Grant County Bank", Sheridan, Arkansas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, 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 St. Louis.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Grant County Bank', Sheridan, Arkansas, 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 Bank Commissioner for the State of Arkansas for his information.

"Since the estimated losses classified in the report of examination for membership are reported to have been charged off, the usual condition of membership regarding elimination of losses has not been prescribed."

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

"This refers to your letter of May 22, 1942, addressed to Mr. Cravens, enclosing a copy of a letter from Mr. Carlos A. Spiess of the firm of Mayer, Meyer, Austrian & Platt, Chicago, dated May 20, 1942, presenting certain questions with respect to the standard form of Guarantee Agreement which has been approved by the War and Navy Departments and the Maritime Commission for use under Executive Order No. 9112.

"Mr. Spiess' first question relates to the effect of the next to the last sentence of section 5 of the Guarantee Agreement which provides that:

> 'After such additional percentage has been added to the percentage specified in section 1 pursuant to a written request for an adjustment by the Financing Institution, the Financing Institution shall have no further rights under this section.'

This provision is intended to have the effect indicated in the first paragraph of Mr. Spiess' letter. If the Financing Institution once makes a request for an adjustment under section 5 and the adjustment is made, the benefits of the section are thereby exhausted and the Financing Institution may not thereafter request a second adjustment on account of any contract cancellations occurring after the first adjustment.

"With respect to Mr. Spiess' second question, the words 'or credit for', as used in the third sentence of section 6, are used merely in amplification of the words 'payment of' and may of course include credit as the result of an offset or otherwise. It is contemplated that, after a determination of the amounts payable to the Borrower, the Borrower will receive payment or credit for the amounts so determined and that the period of waiver of interest and suspension of maturity will come to an end 10 days after the receipt by the Borrower of such payment or credit in full. However, if

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"the amounts payable to the Borrower are not realized by him within a year following the date of the determination of such amounts, waiver of interest and suspension of maturity will cease automatically at the end of such year unless the guarantor permits a further continuation.

"The sentence of section 6 hereunder consideration refers to amounts determined to be payable to the Borrower 'with respect to any cancelled contract'. Mr. Spiess suggests that the reference to 'any' cancelled contract might be construed to mean that payment under any one of several cancelled contracts would operate to terminate a waiver of interest or suspension of maturity which may have been granted with respect to all of such contracts. It is the intent of this provision that if a waiver of interest and suspension of maturity has been granted with respect to a particular cancelled contract, such waiver and suspension shall not cease until 10 days after payment or credit of amounts which have been determined to be payable to the Borrower with respect to that particular contract. This intent is confirmed by the opening phrase of the next succeeding sentence.

"The statements above made as to our interpretation of the provisions of the standard form of guarantee agreement are based upon discussions which took place between representatives of the War Department, the Navy Department, the Maritime Commission and the Board of Governors when the form of agreement was in the course of preparation. We have not submitted the questions discussed in this letter to any of these agencies, however, and, of course, cannot undertake to commit them. It would seem that if a more authoritative expression on these points is desired, the questions might be raised in connection with the negotiations concerning a particular case in order that the governmental agency concerned might be consulted. If any of these questions should become material in connection with the negotiations for a guarantee in any case, kindly advise us of the case and of the governmental agency involved and we will be glad to take the matter up promptly with the appropriate agency."

Approved unanimously, together with letters to Under Secretary of War Patterson, Acting Secretary of the Navy Forrestal, and the United States Maritime Commission transmitting copies of the incoming letter and its enclosure and the above reply.

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

"Section 4(c) of Regulation W requires instalments of not less than $5.00 per month or $1.25 per week on the aggregate instalment indebtedness of the customer even if the cash price of each of the articles purchased is $6 or less."

Approved unanimously.

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

"An overdraft resulting from the drawing of a check is an extension of credit, but in the usual case it is not 'in the form of a loan' within the meaning of section 2(i), and therefore is not subject to Regulation W unless used as a means of evasion."

Approved unanimously.

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

"Your inquiry No. 18, re Regulation W. Board agrees."

The telegram, which had reference to an inquiry relating to the question whether certain overdrafts in Macy's Bank, New York, should be treated as single payment loans or as open charge accounts, was approved unanimously.

Letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"In your letter of May 19, 1942 you asked whether a single-payment loan subject to section 7(b) of Regulation W, but with a maturity of only 30 days, may be renewed at maturity without curtail for a period ending 90 days from the date of the original loan and thereafter be subject to renewals under section 7(c)(2).

"The Board agrees with your view that section 7(c)(2) would not permit the aforementioned renewal without curtail,

"even though the loan might have been made in the first instance with a 90 days maturity. As you point out, section 7(c)(2) would require curtail of approximately 1/12 of the amount of the loan on the date of the first renewal since a reduction in that amount would have been required by the date of such renewal had the loan been an instalment loan subject to section 6(b). Similarly, on the expiration of the 60-day renewal obligation, the first 90-day renewal obligation would have to be accompanied by a curtail of approximately 2/12 of the original amount of the loan.

"Of course, if the renewal were negotiated under section 7(c)(1), no curtail on the date of renewal would be required since it would only be necessary that the renewal obligation be payable in equal monthly instalments of sufficient amount to liquidate the indebtedness within twelve months from the date on which the original single-payment loan was made.

"As you know, footnote 5 and section 9 would require modification of the foregoing in certain cases."

Approved unanimously.

Letter to Mr. Glasgow, Managing Director of the Memphis Branch of the Federal Reserve Bank of St. Louis, reading as follows:

"Enclosed are copies of letters from Mr. F. M. Deaton of Deaton & Bacherig, from Mr. R. W. VanHorn of the J. Goldsmith & Sons Company, from Mr. John L. Glankler of the John Gerber Company, and from Mr. E. S. Eddins of The Merchants' Credit Association, all of Memphis, Tennessee, with reference to Regulation W.

"Will you kindly answer these inquiries. The letters have not been acknowledged by us.

"The regulation, of course, does not permit the charges from the last 5 days of any calendar month to be carried over to the next month for purposes of determining whether or not a charge account is in default and we have received a good deal of comment about this provision.

"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 no change at all is made in the billing

"procedure it would seem that the customer would receive a bill for items purchased in the last 5 days prior to the time that he must pay for them if he is to avoid default.

"The pressure to make a change in this provision has somewhat subsided as merchants found that they were able to make adjustments to the provisions of the regulation without serious interference with their operations, and it is hoped that it will not be necessary to amend the regulation.

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

Approved unanimously.

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

"This will acknowledge your letter of May 22, 1942, with reference to the status under Regulation W of 'house charge accounts' which are used by department store employees.

"This matter has been brought to our attention by several correspondents. As you suggest, there is involved the broader question as to why Regulation W should require a down payment on purchases in an instalment account that will be liquidated within the same period as a charge account, while there need be no down payments on purchases in charge accounts. Careful study is being given to this problem.

"It may interest you to know that some stores are planning to continue these 'house charge accounts' but confine them to purchases of $6 or less."

Approved unanimously.

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

"Please advise W. Homer Kelly, Wichita Independent Business Mens Association, in reply to his wire to Leon Henderson, that Regulation W does not apply to open account sales of food or coal except as provided in section 5(b)."

Approved unanimously.

Letter to Mr. W. P. Potter, General Manager of the Glendale Merchants Association, Ltd., Glendale, California, reading as follows:

"This will acknowledge your letter of May 22, 1942, in which you ask for answers to a number of questions concerning Regulation W.

"As to your principal question, the one relating to the status of unlisted articles, we have telegraphed a request to the Los Angeles Branch of the Federal Reserve Bank of San Francisco to give you the answer, and we assume that by this time you will have received it. The essential points to bear in mind on this question are (1) that a merchant who is engaged exclusively in the business of selling unlisted articles is not a 'Registrant', so that no portion of the regulation applies to him and (2) that a charge account containing only listed articles, if carried with a Registrant who sells both listed and unlisted articles, may be in default under the regulation with no consequence except that the customer may not be permitted to purchase a listed article on credit from that Registrant.

"The accounts to which your letter refers as 'professional accounts', together with charge accounts for such things as laundering, dry cleaning, etc., do not appear to involve listed articles at all.

"The administration of Regulation W is decentralized among the twelve Federal Reserve Banks, and you will find it more convenient to direct any further comments or questions that you may have on this subject to the Los Angeles Branch of the Federal Reserve Bank of San Francisco, Los Angeles, California, in whose district you are located."

Approved unanimously.

Letter to Mr. Arthur L. Blakeslee, Assistant Chief of the Protective Construction Unit of the Federal Works Agency, Public Buildings Administration, reading as follows:

"Following receipt of your circular letter of March 10, 1942, with respect to the protection in public buildings of all communication systems, transformers, etc.

"vital to 24-hour operation of the buildings, we transmitted to the Federal Reserve Banks the information contained therein and stated it to be our understanding that the Protective Construction Unit would study each case referred to it, recommend protective construction and provide detailed plans therefor in such manner that any necessary work could be undertaken without further delay, although it was not proposed to begin any recommended construction until the War and Navy Departments deemed it advisable.

"There were transmitted to you by messenger on May 27 plans of the buildings of the Federal Reserve Banks of Philadelphia, Cleveland, and Chicago, on which have been indicated, as requested in your letter, the rooms and other spaces, if any, needing attention on the basis outlined. With respect to the plans of the Federal Reserve Bank of Philadelphia, the Bank states that unfortunately it has never possessed complete plans of the units designated as 1A, 1B, and 2, as shown on the Building Layout Photostat attached to the plans. The outlines of buildings 1A and 1B, however, are shown on the drawings, and the construction of these buildings is as follows:

Building 1A Brick. Basement and 5 floors

Building 1B Reinforced concrete. Basement and 5 floors

Building 2 Brick. Basement and 2nd floor (No street level floor. Building formerly used as power house)

"The Federal Reserve Bank of Philadelphia, located at 925 Chestnut Street, Philadelphia, Pennsylvania, would be pleased to have an expert from your office visit the Bank and give it the benefit of his observations and recommendations. The Federal Reserve Bank of Chicago has indicated that in addition to recommendations as to protective construction it would be interested in having your unit recommend areas not involving new construction that offer the best shelter immediately available for protection of personnel from blasts and splinters. In this connection the Federal Reserve Bank of Chicago states that its roof construction consists of a sixteen inch tile arch, a six inch concrete slab, and over this a concrete roof slab tapering from six inches at the middle down to two inches;

"also that a building of modern construction to the west protects its building up to several feet above the ceiling of the twelfth floor.

"When the plans of the Federal Reserve Banks of Philadelphia, Cleveland, and Chicago have served their purpose it will be appreciated if you will return them to this office. In case you wish to obtain additional information with respect to the plans, we suggest that you correspond directly with the officer of the particular Bank designated below:

Federal Reserve Bank of Philadelphia--
Philip F. Coleman, Assistant Vice President
Federal Reserve Bank of Cleveland--G. H. Wagner, Vice President
Federal Reserve Bank of Chicago--Mark A. Lies, Assistant Cashier

"The Board of Governors appreciates the services your office is rendering to the Federal Reserve Banks and to the Board, and, in this connection, referring to our letters of January 27 and March 13, 1942, it is our assumption that your office will make recommendations with respect to any protective construction deemed necessary at the Federal Reserve Banks of New York, Minneapolis, and Dallas."

Approved unanimously.

Letter to Mr. Baird Snyder, 3rd, Acting Administrator, Federal Works Agency, reading as follows:

"I am writing this letter to remind you of the assurance which you gave me in your letter of March 23 in regard to the space in this building for the Inter-American Defense Board that 'one way or another we shall get this Board other space within a period of approximately two months'.

"Due to the additional responsibilities which have been placed upon the Board of Governors, and the reorganization of some of our functions, we need the space in the northwest 'C' Street wing on the first floor of the building now occupied by the Inter-American Defense Board, consisting of 5600 square feet. It will be appreciated if

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"you will make whatever arrangements are necessary to have the Inter-American Defense Board vacate this space as soon as possible."

Approved unanimously.

Thereupon the meeting adjourned.

Assistant Secretary.

Approved:

Chairman.