

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 5, 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 herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 4, 1942, were approved unanimously.

Telegram to Mr. Sproul, President of the Federal Reserve Bank of New York, 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 June 6, 1942:

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

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

On advances taken over from financing institutions under commitments -

- a. Rate charged borrower on portion for which Reserve Bank assumes risk.
- b. Rate charged borrower less commitment charge on portion on which financing institution assumes risk.

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

The telegram also stated that the Board of Governors appreciates Mr. Sproul's meeting with the Board to discuss the maximum rate on industrial loans and his outlining to his directors the views of the Board thereon.

Approved unanimously.

Telegram to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, 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 June 6, 1942:

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

Advances to financing institutions with respect to loans to industrial or commercial businesses:

- a. On portion for which financing institution is obligated - rate charged borrower less commitment rate.
- b. On remaining portion - rate charged borrower.

Commitments to make advances:

- a. Direct to industrial or commercial businesses - 10 to 25 per cent of loan rate with a minimum of $\frac{1}{2}$ per cent.
- b. To financing institutions - 10 to 25 per cent of loan rate with a minimum of $\frac{1}{2}$ per cent, provided that no commitment shall be given on a loan on which borrower is charged more than 5 per cent per annum.

Approved unanimously.

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Telegrams to Mr. Davis, Vice President of the Federal Reserve Bank of Philadelphia, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on June 2, by the Federal Reserve Banks of Cleveland, Richmond, Chicago, and San Francisco on June 4, 1942, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated May 29, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the temporary appointment of Paul G. Hermsberg, as an associate economist in that Division, be extended for an additional period of not to exceed one year from July 31, 1942, with no change in his present salary at the rate of \$400 per month.

Approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of your Bank and Branches as requested in your letter of May 28, 1942."

Approved unanimously.

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Letter to Mr. W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors approves the change in the personnel classification plan of your Bank, as requested in your letter of June 1, 1942."

Approved unanimously.

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

"The Board has received from the War Department a copy of a memorandum dated May 20, 1942, addressed by Lt. General Brehon Somervell to certain officers of the War Department regarding the procedure to be followed in connection with guarantees, loans and commitments made by the War Department pursuant to Executive Order No. 9112. Ten copies of this memorandum are enclosed herewith for the use of your bank.

"You will observe that under paragraph 5 of the memorandum all guarantees over 90% regardless of amount must be submitted to the Advance Payment and Loan Section of the War Department for prior approval. This, in effect, is a qualification of the provisions of the War Department instructions of April 8, 1942 (as modified April 14, 1942) which permit guarantees not exceeding \$100,000 to be made under certain conditions without submitting them to the War Department for prior approval."

Approved unanimously.

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

"Retel May 28 regarding S-488 as to special condition prescribed by War Department for section 13 standard form of guarantee agreement. Have consulted informally with representative of War Department, who advises no objection to changing 'War Department' to 'Guarantor' and 'interest' to 'interests' as you suggest. However, we

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"suggest that printing special condition be deferred until further advices from us."

Approved unanimously.

Letter to Honorable James V. Forrestal, Under Secretary of the Navy, reading as follows:

"There is enclosed herewith a copy of a letter received by us from the Federal Reserve Bank of San Francisco and a copy of its enclosure, with reference to the possibility of branches of the Canadian Bank of Commerce situated in this country being named as assignees of contracts between the Navy Department and shipbuilding concerns.

"We will appreciate receiving any comments that you may care to make with respect to this matter in order that we may reply to the letter from the Federal Reserve Bank of San Francisco."

Approved unanimously.

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

"A pawn transaction in which the pawnor is not under any personal obligation to repay the pawnbroker is not a loan and is not subject to Regulation W. However, the mere fact that the transaction is called a pawn does not mean that it is not subject to Regulation W since there are many so-called pawn transactions which do in fact involve an obligation to repay."

Approved unanimously.

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

"Replying your wire re single payment loans under Regulation W. Term 'single payment loan' as defined in section 2(i) is limited to credits 'in form of loan'. Section

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"7 is therefore restricted to loans and does not include single payment obligations taken by vendor in sale of listed article. Maturity of obligation taken by vendor is, however, subject to limitation of section 5(a)."

Approved unanimously.

Letter to Mr. Phillips, Assistant Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

"Thank you for your letter of May 28, 1942, enclosing a letter that you received from Mr. R. D. Cline of Carthage, relating to the avoidance of Regulation W by renting furniture instead of selling it.

"If the situation in this respect is as serious as Mr. Cline's letter to you suggests, and particularly if this practice is also being followed in other and larger centers, it will of course be necessary for the Board to consider action to take care of the situation.

"On the other hand, it is quite possible that the practice to which Mr. Cline refers may be a violation of the Regulation as it now stands. The term 'extension of credit', defined in section 2(b) of the Regulation, includes 'any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equal to or in excess of the value thereof'. You will also observe that the term 'sale', as defined in section 2(d) of the Regulation, includes a 'lease, bailment, or other transaction which is similar in purposes or effect to a sale'.

"We shall be interested in such further information as you may be able to obtain regarding the extent to which Regulation W is being avoided by means of rental plans and regarding the question whether or not such rental plans are or are not being carried on in violation of the present provisions of the Regulation."

Approved unanimously.

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

"This refers to your letter of May 22, asking as to

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"the status of your inquiry relating to the purchase of watches by railroad employees.

"After several consultations with persons in the time inspection business who handle the mechanics of the watch purchase plans, it became evident that it would not be possible to make a ruling which would be helpful in solving this problem. The question now before us is whether or not the problem is so serious as to warrant amendment of the regulation to provide an exception for cases of this kind.

"One of the difficulties we have faced in considering this question is the lack of factual information on the magnitude of the problem. This we are endeavoring to obtain but we should be very glad to receive from you any additional information which might be developed in your area."

Approved unanimously.

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

"This is in reply to your letter of May 26 enclosing a copy of a letter from the Retail Merchants Credit Association of Los Angeles asking that Regulation W be amended to give additional time for payment for charge purchases made during the last few days of a calendar month.

"The Board has received similar suggestions from merchants and associations in other sections of the country, but up to this time has felt, as you feel, that the calendar month provision now contained in section 5(c) is more desirable than any of the alternatives suggested."

Approved unanimously.

Letter to Senator Walter F. George, reading as follows:

"This will acknowledge your letter of May 27, 1942 with which you enclosed a letter of May 23, 1942 from W. E. Harmon of the Home Supply Company, Albany, Georgia, relative to the Board's Regulation W dealing with consumer credit.

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"As you know, Regulation W is one of a number of steps being taken to restrain an inflationary rise in the cost of living and thus to prevent so far as possible the serious difficulties which have always followed such a rise in the past. The tremendous amount by which consumer purchasing power exceeds the volume of civilian goods available for purchase makes it necessary to curtail to the utmost additions to that purchasing power arising from the extension of credit.

"The regulation was not intended to be so restrictive as to prevent the use of consumer credit where the vital necessities of the individual justify its use. Moreover, the regulation was not designed with the intent or expectation that existing businesses would have to be liquidated. It was believed that the requirement of one-third down payment and balance to be paid over twelve months, with payments of at least \$1.25 per week, was not too severe in view of our present critical situation.

"The administration of Regulation W is decentralized among the twelve Federal Reserve Banks and their twenty-four branches, and it is suggested that if Mr. Harmon has any further inquiries regarding this regulation he may find it more convenient to address them to the Federal Reserve Bank of Atlanta.

"We are always glad to receive comments and suggestions on the Board's regulations and will give the communication you have forwarded careful consideration.

"As requested, Mr. Harmon's letter is being returned to you."

Approved unanimously.

Letter to Senator Richard B. Russell, reading as follows:

"This will acknowledge your communications of June 1, 1942, enclosing letters from R. E. Davis of the Home Furnishing Company, Albany, Georgia, dated May 21, 1942, and N. L. Moseley of the C. & C. Clothing Company, Dalton, Georgia, dated May 27, 1942, relative to the Board's Regulation W dealing with consumer credit.

"As you know, Regulation W is one of a number of steps being taken to restrain an inflationary rise in the cost of living and thus to prevent so far as possible the serious difficulties which have always followed such a rise in the past. The tremendous amount by which consumer purchasing power exceeds the volume of civilian

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"goods available for purchase makes it necessary to curtail to the utmost additions to that purchasing power arising from the extension of credit.

"The regulation was not intended to be so restrictive as to prevent the use of consumer credit where the vital necessities of the individual justify its use. Moreover, the regulation was not designed with the intent or expectation that existing businesses would have to be liquidated. It was believed that the requirement of one-third down payment and balance to be paid over twelve months, with payments of at least \$1.25 per week, was not too severe in view of our present critical situation.

"The administration of Regulation W is decentralized among the twelve Federal Reserve Banks and their twenty-four branches, and it is suggested that if Mr. Davis or Mr. Moseley have any further inquiries regarding this regulation they may find it more convenient to address them to the Federal Reserve Bank of Atlanta.

"We are always glad to receive comments and suggestions on the Board's regulations and will give the communications you have forwarded careful consideration.

"As requested, the letters from Mr. Davis and Mr. Moseley are being returned to you."

Approved unanimously.

Letter to Mr. Ernest Trigg, President of the National Paint, Varnish and Lacquer Association, Washington, D. C., reading as follows:

"We regret the delay in furnishing you with this confirmation of your telephone conversation with Mr. Chase in which he gave you the information requested in your letter of May 18.

"Your question is whether Regulation W, as revised effective May 6, 1942, affects credit granted by a wholesaler to a retailer or by a manufacturer to a wholesaler.

"The Regulation applies, in general, to all sales of 'listed articles' whether on open account or on an instalment basis. 'Listed Articles' are those listed in section 13(a) of the Regulation, and include materials in connection with repairs or improvements on residential property (Group C).

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"However, section 8(f), to which you refer, exempts credit extended to a dealer or a contractor to finance the purchase of any listed article for resale or installation by the dealer or contractor. For the purposes of this section a wholesaler, as well as a retailer or a contractor, is regarded as a 'dealer'."

Approved unanimously.

Letter to Mr. T. R. Smith, Second Vice President of the Topeka Chapter of the American Institute of Banking, Topeka, Kansas, reading as follows:

"Receipt is acknowledged of your letter of May 27 regarding Regulation W. The answers to your questions are set forth below.

"(1) Regulation W requires that the maturity of a single-payment loan (as defined in section 2(i) of the Regulation, a copy of which is enclosed for your convenience) shall not exceed 90 days. Section 7(a)(2) and section 7(b).

"(2) Your second question relates to the maximum maturity of a loan to pay off a charge account containing listed and unlisted articles where all the purchases were made prior to May 6. If the loan is a single-payment loan, the answer is contained in the preceding paragraph. If the loan is an instalment loan, the maximum maturity is 6 months. Section 6(b) and section 12(f).

"(3) You may rely on answers given you by the Federal Reserve Banks. In fact, as you will see from the note on the inside front cover of the Regulation, inquiries should be addressed to the Federal Reserve Bank or branch of the district in which the inquiry arises."

Approved unanimously.

Letter to Mr. J. H. Fox, President of Lion, San Diego, California, reading as follows:

"Thank you for your letter of May 28, 1942, regarding Regulation W, and referring specifically to a loophole which may exist because of abuse of the so-called

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"'Lay-Away' plan. The Board is interested in the comments and constructive suggestions that we have been receiving from merchants and others with respect to Regulation W.

"In this connection we should be most appreciative if you could give us some additional details with regard to the manner in which 'Lay-Away' plans may be in use in your section of the country to avoid the provisions of Regulation W. We should be very glad to have you write us such further information on this subject as you may care to send, or if you prefer we should be glad to have you take up the matter further with the Los Angeles Branch of the Federal Reserve Bank of San Francisco in whose territory you are located, as the administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches."

Approved unanimously.

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

"This refers to your letter of May 18, 1942, enclosing for our information a copy of a resolution passed by the Board of Directors of the First Trust and Savings Bank of Pasadena, California, authorizing the supervisory authorities to transmit to Transamerica Corporation, or to such other corporation or individual as Transamerica may in writing request, copies of all reports of examination of the bank.

"In view of the fact that Transamerica Corporation has become a holding company affiliate of First Trust and Savings Bank of Pasadena, it is felt that copies of reports of examination of the bank made by your examiners subsequent to the time when Transamerica Corporation became a holding company affiliate of the bank may be furnished the corporation in accordance with the authorization received from the bank. Such reports should be furnished, however, with the definite understanding that they are furnished for the confidential information of Transamerica Corporation only, for use by the holding company affiliate in dealing with a subsidiary bank, and shall not be made available by it to any other corporation or individual without first obtaining permission from the Federal Reserve Bank of San

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"Francisco. In the event that you receive a request from Transamerica Corporation for such permission, it will be appreciated if you will submit the matter to the Board for consideration, with such recommendation as you may deem appropriate."

Approved unanimously.

Letter to Mr. Ford, Cashier of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of May 12 relative to the classification by Citizens State Bank, Knox City, Texas, of certificates of interest issued by Commodity Credit Corporation as United States Government guaranteed obligations in its report of condition as of April 4, 1942.

"Your letter states that the cotton loans which were properly included in agricultural loans in Schedule A of the December 31, 1941, report of condition were subsequently transferred to the Commodity Credit Corporation, and the member bank received therefor a certificate of interest issued by the Corporation bearing 1-1/2 per cent interest; that the certificate provides for the payment of the principal as and when the Corporation realizes on the collateral, and that any deficiency after application of the collateral will be paid from the general funds of the Corporation; that the member bank cannot repurchase or regain possession of the notes; and that you construe such certificates as obligations of a governmental agency guaranteed as to principal and interest by the United States Government.

"Although the certificates of interest have certain characteristics of securities rather than loans, they seem to represent a participation in a pool of cotton notes, and only the method of handling these notes has been changed under the arrangement for handling the 1941 crop. While there is an agreement or guarantee by the Corporation to pay any deficiency upon final liquidation of the pool, this does not constitute a guarantee by the United States Government such as that existing with respect to 3/4s of 1943 and 1-1/8s of 1945 issued by Commodity Credit Corporation.

"This matter has also been discussed informally with members of the staff of the Commodity Credit Corporation,

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"Comptroller of the Currency, and Federal Deposit Insurance Corporation. We understand that such certificates are being classified as loans in reports of condition submitted by banks to the bank supervisory authorities. These certificates are discussed in paragraph 6620 of the Bulletin of the Comptroller of the Currency, dated August 15, 1941, under the heading of 'Limitation on Loans by National Banks'.

"In the circumstances, it seems that these certificates of interest should be reported as agricultural loans. Please advise the member bank accordingly."

Approved unanimously.

Chairman Eccles stated that the War Loans Committee had considered the continuation for a further period of the employment of Kenton R. Cravens as Administrator for the War Loans Committee and had decided to recommend to the Board that, effective immediately, his employment be continued on a temporary indefinite basis with salary at the rate of \$15,000 per annum, it being the feeling of the Committee that, although his salary at the Cleveland Trust Company was at the rate of \$16,500, the maximum salary for the position of Administrator should not exceed \$15,000. Chairman Eccles also said that the recommendation of the Committee was made with the express understanding (1) that Mr. Cravens would be subject to all of the rules and regulations applicable to division heads, including such matters as annual and sick leave and reimbursement for travel expenses in accordance with the Board's travel regulations, and (2) that when Mr. Cravens went to Cleveland or elsewhere on other than official business he would obtain annual leave according to the established procedure for the period of

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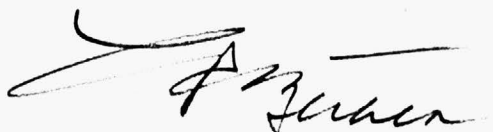
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his absence and pay his own travel expenses.

Following the decision of the War Loans Committee, Chairman Eccles said, he discussed the matter with Mr. Cravens who in turn took it up with the President of the Cleveland Trust Company and arranged for an indefinite leave of absence from the bank, and was now willing to accept employment by the Board on the basis outlined above for such period as might be necessary in connection with the administration of war loan matters arising under Regulation V, with the understanding, however, that the employment might be terminated at any time in his discretion or in the discretion of the Board. Chairman Eccles added that it was agreed with Mr. Cravens that he would prepare a memorandum of his understanding of the terms of his employment, which would be placed in the Board's files.

The continuation of the employment of Mr. Cravens in accordance with the recommendation of the War Loans Committee was approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.