

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, June 6, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Draper

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:

Memorandum dated June 3, 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, Harold T. Krug be appointed on a temporary basis as an Assistant Federal Reserve Examiner, with salary at the rate of \$1,900 per annum, and with official headquarters at Omaha, Nebraska.

By unanimous vote, Mr. Harold T. Krug 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 System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Omaha, Nebraska, and with salary at the rate of \$1,900 per annum, all effective as of the date upon which he enters upon the performance of his duties.

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Memorandum dated June 3, 1942, from Mr. Nelson, Assistant Secretary, recommending that Miss Alice M. Mackey be appointed as a Junior file clerk in the Secretary's Office on a temporary basis for a period of six months, with salary at the rate of \$1,260 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, with the understanding that if her work is satisfactory during the six months' period a further recommendation will be submitted asking that her appointment be made permanent and her salary increased to \$1,440 per annum.

Approved unanimously.

Memorandum dated May 30, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of George Jaszi as a junior economist 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. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In view of the circumstances set forth in your letter of June 3, 1942, the Board of Governors approves the payment of a salary to Mr. Arthur E. Post for a further period from July 1 to July 14, 1942, at the rate of \$8,000 per annum."

Approved unanimously.

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

"This refers to your letter of May 29, 1942, addressed to Mr. Cravens, enclosing a copy of a letter from Messrs. Gann, Secord, Stead and McIntosh, attorneys for the Mercantile National Bank of Chicago, in which a question is raised as to the interpretation of section 6 of the standard form of guarantee agreement dated May 14, 1942.

"As we understand the inquiry, it raises the question whether section 6 of the form of agreement may operate in such a way as to prevent the Financing Institution from obtaining payment on the part of the loan which is held by it after there has been a waiver of interest and suspension of maturity on a portion of the loan and after the Financing Institution has received the benefit of a purchase by the Guarantor under section 1 of the agreement as augmented by the provisions of section 5. The inquiry suggests that the balance of the loan held by the Financing Institution might be subject to a perpetual suspension of maturity under the language of section 6.

"It is believed that the question is answered by the two sentences immediately preceding the last sentence of section 6 of the agreement. These sentences provide in effect that if there is a purchase by the Guarantor under any provision of the agreement, the portion of the loan as to which interest has been waived and maturity suspended is to be included in the percentage of the loan which has been so purchased by the Guarantor. The result is that in any case of this kind the amount of the loan purchased by the Guarantor will exceed and therefore include the portion of the loan as to which interest has been waived and maturity suspended by the Financing Institution.

"As an example, assume that an agreement has been executed for a 90% guarantee on a loan of \$100,000 to a borrower who has war production contracts amounting to \$400,000; that \$200,000 of the borrower's contracts are cancelled and the Financing Institution therefore waives interest and suspends maturity on 50% of the loan, or \$50,000; and that the Financing Institution then exercises its rights under sections 1 and 5 of the agreement. Accordingly, the Guarantor will purchase 90% of the loan under section 1, plus 50% of 10% or 5% under section 5 of the agreement or a total percentage of 95%, that is, \$95,000. This amount will

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"include the \$50,000 as to which interest has been waived and maturity suspended, and the portion of the loan still held by the Financing Institution will be unaffected by such waiver and suspension.

"We are not certain that we have fully understood the question which is presented by Messrs. Gann, Secord, Stead and McIntosh, and if the explanation given above does not answer the question we will be glad to have you write us again in the matter. It should be understood, of course, that the interpretation indicated is our view of the matter based upon our discussions with the other agencies of the Government when the guarantee agreement was being prepared, but we have not consulted with them about this question and cannot undertake to commit them. If an authoritative interpretation should be desired in a particular case, we will be glad to take the matter up with the particular agency concerned if this is deemed necessary."

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

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

"Reference is made to your letter of May 14. Repairs, alterations or improvements to farm buildings, such as barns, silos and chicken houses, are not included under Group C of section 13(a) of Regulation W, as these structures are not for residential use; neither is a country club structure for residential use.

"Extensions of credit for the modernization of a detached garage located on the same property with a residential structure would fall under Group C.

"Tiling, if laid around a residence, would fall under Group C items, but tiling laid in the fields would not.

"With respect to the meaning of the phrase 'materials and services' in Group C, the Board said in its telegram of January 30, S-437-b, that the phrase should be interpreted

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"as meaning materials and/or services. However, since the amendment of the Regulation, this statement must be modified to the extent that it would make Group C refer to services alone. The phrase should be interpreted to mean materials, and any delivery, installation, or other services rendered in connection therewith. It seems probable that this is the meaning which has been given to the phrase in practice, and it is in harmony with other parts of the Regulation, particularly section 2(j)."

Approved unanimously.

Telegram to Mr. Timberlake, Statistician at the Federal Reserve Bank of Minneapolis, reading as follows:

"Relet June 1, suggest that Ninth District bank debits figures be not released before eighth of each month, the scheduled date of Board's release."

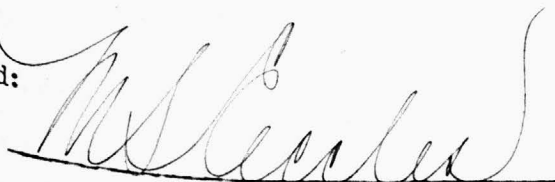
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.