

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 11, 1942, at 2:15 p.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Bergelin, Associate Economist in the Division of Research and Statistics

Mr. Ransom stated that in accordance with the action taken at the meeting of the Board on June 9, 1942, he had undertaken, with the assistance of Messrs. Morrill, Thurston, Goldenweiser, and Thomas, to draft a letter that might be sent to all banks in the United States regarding the use of credit in connection with the accumulation of inventories of consumer goods. At Mr. Ransom's suggestion, the draft was read and discussed paragraph by paragraph.

Following the discussion, upon motion by Mr. Ransom, it was agreed that the proposed letter should be revised, under the direction of Chairman Eccles, by the members of the staff who had worked on the original draft in the light of comments offered by various members of the Board; that the Board members would hand to Mr. Morrill any further suggestions which they might have with respect to the language or contents of the

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letter; that the revised draft should be addressed to "All Banks and Other Financing Institutions"; and that the final draft should be submitted to the Board for approval, after which it would be cleared with the Secretary of the Treasury, the Secretary of Commerce, the Administrator of the Office of Price Administration, the Chairman of the War Production Board, the Chairman of the Federal Deposit Insurance Corporation, and possibly others.

At this point, Messrs. Thurston, Goldenweiser, Thomas, and Bergelin left the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 10, 1942, were approved unanimously.

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

"For the reasons set forth herein the Board has deferred action on the application for membership of The Perrysburg Banking Company, Perrysburg, Ohio.

"The bank was reorganized in 1934 under a plan involving a waiver of deposits and an agreement by the bank that, until the waived deposits had been paid in full, it would turn over to the trustees for the benefit of the waiving depositors earnings of the bank which would otherwise be applicable to the payment of dividends. It appears that in 1940 the bank attempted to relieve itself of any liability under the reorganization plan, but your counsel states that he is unable to render an opinion that the original agreement with the waiving depositors is not still operative. In the circumstances there is an inherent danger in the bank's proceeding on the theory that it has been relieved of all liability under the original agreement and the Board does not feel that it would be warranted in taking any action on this application for membership until the bank has taken such action as may be necessary to satisfy

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"your counsel as to whether or not it has been relieved of liability.

"Under the provisions of the Federal Reserve Act, the Board, in passing upon an application for membership, must consider, among other things, the general character of the bank's management. To satisfy questions which have arisen on that point in this case, the Board would like to have full information as to why it was deemed desirable to enter into a new agreement with the waiving depositors; whether, in presenting such agreement to the waiving depositors, they were fully informed as to their rights in the circumstances; and whether in your opinion any activities of the representatives of the bank in connection with the obtaining of such new agreement reflect unfavorably on the management.

"The questions in this case have naturally arisen because the only gesture by the stockholders, looking toward the rehabilitation of the bank in 1934, was an agreement to the effect that the waiving depositors, instead of the stockholders, would receive any dividends which might be paid on the bank's stock. However, in 1940, the bank apparently undertook to relieve itself even of that obligation and the only apparent consideration for obtaining the subsequent agreement from the waiving depositors was the paying over to them of something which was already theirs."

Approved unanimously.

Letter to Honorable Lindsay C. Warren, Comptroller General of the United States, General Accounting Office, reading as follows:

"There are enclosed for your information a copy of a letter and certain enclosures addressed to the Board's General Counsel under date of June 9, 1942 by Mr. P. F. Coleman, Assistant Vice President of the Federal Reserve Bank of Philadelphia, from which it appears that the acknowledgment and return of notices of assignment pursuant to the Assignment of Claims Act of 1940 are sometimes held up by members of the staff of the General Accounting Office with requests for compliance with certain requirements which are not usually insisted upon by your office.

"As you probably know, the standard form of Notice of Assignment now being used and the instructions for their use were prepared by an inter-departmental committee shortly

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"after the passage of the Assignment of Claims Act of 1940 and the procedure regarding such notices was the subject of rulings numbered B13700 and B13852 issued by your office under dates of December 2, 1940 and December 10, 1940, respectively.

"If the requirements regarding such assignments and the notices thereof have been changed, or if any additional requirements have been prescribed by your office, the Board will appreciate prompt advice thereof, in order that it may advise the twelve Federal Reserve Banks so that they may avoid the delays in the war financing program resulting from difficulties of the kinds referred to by Mr. Coleman. If, on the other hand, the requests made by the members of the staff of your office in the letters enclosed with Mr. Coleman's letter are not in accordance with the requirements of your office or are not deemed by you to be absolutely necessary, it is respectfully suggested that the issuance of advice to this effect to the members of your staff might avoid unfortunate delays in the financing of the war production program.

"The Board's interest in this matter arises out of the fact that, under the terms of Executive Order No. 9112 issued by the President under date of March 26, 1942 for the purpose of expediting and facilitating the war production program, the Federal Reserve Banks are acting as fiscal agents of the War Department, the Navy Department and the Maritime Commission in expediting and facilitating the financing of contractors, subcontractors and others engaged in war production and the Board of Governors of the Federal Reserve System, pursuant to the terms of the Executive Order and its own Regulation V, is maintaining liaison between the Federal Reserve Banks and the War Department, the Navy Department and the Maritime Commission and exerting its best efforts to facilitate and expedite the carrying out of this program.

"In view of the importance of eliminating any difficulties which may obstruct or delay this program, your prompt attention to this matter will be greatly appreciated."

Approved unanimously.

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

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"Re tel June 11 Board has no objection to your sending copies of R-985 (press release with respect to amortization of loans to individuals for nonproductive purposes) to all member banks in your district."

Approved unanimously.

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

"With your letter of May 15, 1942, you enclosed a copy of a letter from Mr. M. R. Morgan, Commissioner of Banking of Virginia, in which he suggested a modification of W-72 so that a Registrant may sell a repossessed automobile without regard to the one-third down payment required by Regulation W.

"Mr. Morgan's suggestion is based upon an analogy to the case where a bank disposes of real estate taken under foreclosure, and it is obvious that from the standpoint of the bank the procedure which he suggests would be preferable and would be in harmony with the practice which has been followed in the past in most cases.

"However, the question has been presented to the Board on several occasions and the Board has said that in the usual case where a Registrant repossesses an automobile and offers it for sale, the resale cannot be made on terms which do not comply with the Regulation, thus applying to a bank the same rule which would be applied to any other Registrant.

"It is clear, of course, that an automobile dealer who repossesses an automobile and puts it back in stock should be required to sell it on terms complying with the Regulation. In very many cases where automobiles are repossessed, the sale was financed by an automobile finance company which bought the contract from the dealer and which repossessed the automobile. To permit the finance company to resell the automobile in such cases on terms not complying with the Regulation would create an anomalous competitive situation, and the Board felt that no distinction should be made between resales by the dealer and by the finance company. Likewise, there seemed to be no basis for making a distinction between a bank and a finance company in such cases.

"The Board has not so far been advised that this position has worked a hardship on Registrants which would

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"justify it in changing its position. However, you may assure Mr. Morgan that the Board is glad to have his suggestions and to give them the most careful consideration."

Approved unanimously.

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

"Your wire June 10. Pool tables and equipment and bowling pins and balls are included in section 13(a) (of Regulation W), Group A, item 33 but bowling alleys are not. Bowling alleys become part of structure in which installed and are not considered 'equipment'. Bowling alleys installed in commercial establishment would not be covered in Group C."

Approved unanimously.

Letter to Mr. Gilmore, Assistant Cashier of the Federal Reserve Bank of St. Louis, reading as follows:

"Your letter of May 23 contained a number of questions regarding Regulation W, one of which was whether a Registrant making an instalment sale of a listed article may accept one or more payments equal to the down payment required by section 4, and delay making an instalment contract until the date of delivery.

"Under section 12(d), the Registrant in such a case may treat the extension of credit as not having been made until the date of delivery of the article to the purchaser, and the Registrant may likewise delay making the contract until that date. The fact that the article is of a seasonal nature is not material.

"The other questions contained in your letter relate to delayed deliveries of charge sales. The Board has received several inquiries from other Federal Reserve Banks regarding similar questions, and you will be informed of the Board's views as soon as possible."

Approved unanimously.

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

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"Your wire June 10 regarding Group C, Regulation W. Apartment hotels designed exclusively for residential use are residential structures even though they accept some transient guests, but hotels designed exclusively for non-residential use are non-residential structures even though they accept some permanent residents."

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 28 relating to two problems in connection with the regulation of charge accounts under Regulation W that have been raised by stores in your district.

"Your first question relates to the identification, promptly after the 10th day of each calendar month, of the accounts which have become 'in default' under section 5 of Regulation W. While it will involve a substantial operating problem for a store to have these accounts identified by the 11th of the month, it is our understanding that large stores in Canada have been successful in meeting the similar problem which arises under the Canadian credit regulation. As you point out in your letter, Regulation W requires that the store refrain from making credit sales of listed articles to customers whose accounts are in default, without any exception except in cases covered by section 5(f) relating to certain sales of less than \$5 and section 12(a) relating to cases in which the making of the sale in a defaulted account is the result of an excusable error and not occasioned by a regular course of dealing.

"Your second question relates to cases in which an account is in default but the amount of money involved is very small. While Amendment No. 4 of Regulation W was in process of preparation, the matter of permitting defaults of small amounts to be overlooked was given consideration but the Board decided not to include any such provision in the regulation. On the other hand, you indicate in your letter that in some cases these small amounts are 'charged off' if still unpaid at the end of three months. As indicated in S-499, the mere charging off of the indebtedness would not end the defaulted status of the account.

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"As the foregoing paragraphs will indicate it is the present inclination of the Board not to sanction any deviation from strict compliance with the terms of Regulation W in the matters discussed in your letter of May 28. On the other hand, of course, if there come to your attention any additional points relating to these or similar matters which you believe ought to be considered by the Board, it will be appreciated if you will write us further."

Approved unanimously.

Letter prepared for the signature of Mr. Evans to Senator Clyde L. Herring, reading as follows:

"With your letter of June 3 you enclosed a letter addressed to you May 28 by Mr. Douglas G. Swale, Vice President of the First National Bank of Mason City, regarding a loan under the terms of Regulation W to a salaried worker who owns a farm and desires to borrow for the same purpose that a farmer himself might borrow.

"The question relates to Section 8(i) and Section 9(b) of the regulation, and at the outset it would be desirable to mention some of the important differences between these two sections. A copy of the regulation is enclosed.

"Section 8(i) exempts entirely from the regulation any loan to a person engaged in agriculture if the loan is for general agricultural purposes and is not for the purpose of purchasing any listed article.

"Section 9(b) permits variations from the regular monthly payment schedule on instalment loans if the borrower is engaged in agriculture and derives his income principally therefrom, even if he intends to use the money to buy a listed article.

"The loans which Mr. Swale describes (to pay interest, taxes, or principal payments on a farm mortgage, and to build a hog house) are not for the purpose of purchasing any listed article (See Section 13), but they are for agricultural purposes, and the borrower (whether a farmer or a salaried worker who owns a farm) is 'engaged in agriculture' within the meaning of section 8(i), as appears from the very nature of the loans. Therefore, the loans are exempted from the regulation by section 8(i) even though

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"the borrower's income is not principally derived from agriculture.

"Accordingly, if we interpret Mr. Swale's letter correctly, the amendment which he suggests is unnecessary.

"We are giving continuing study to the regulation and are always glad to have comments from bankers and other interested persons regarding its practical effect in operation. I suggest, however, that if Mr. Swale has any further inquiries regarding the regulation, he may find it more convenient to address them directly to the Federal Reserve Bank of Chicago, which has charge of administering the regulation in the district in which he is situated."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Honorable D. W. Bell, Under Secretary of the Treasury, reading as follows:

"I am in receipt of your letter of June 1, 1942 with which you enclosed copies of letters written to the Federal Reserve Banks of Chicago and New York relative to the desire of the Treasury Department to use a tabulating card form of check for the purpose of making disbursements by the Chicago and New York offices of the Treasury's Division of Disbursement.

"It is noted that you propose to have the checks drawn by the Chicago and New York disbursing offices made payable through the Federal Reserve Banks of Chicago and New York in the same manner as is now being done with respect to emergency relief checks, except that you would want the other Federal Reserve Banks to give immediate credit for such checks the same as they do for other checks (except emergency relief checks) drawn on the Treasurer of the United States. It is understood that under the new practice the Federal Reserve Bank receiving such checks would be authorized to charge them to the Treasurer's account on its books and that the checks would then be forwarded to the Federal Reserve Bank through which they were payable for examination and final payment as agent of the Treasurer. The Board knows of no reason why a procedure along these lines can not be satisfactorily worked out, provided no complications arise with respect to the return of checks because of forged signature of the drawer, insufficient funds, stoppage of payment, or any material defect discovered upon final examination.

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"It is believed that, if the Federal Reserve Banks are called upon to handle these checks in the manner outlined in your letter, it is important that they act under special instructions clearly defining their duties and responsibilities as agents of the Treasurer of the United States. Inasmuch as it is contemplated that this practice may later be extended to all Federal Reserve Districts, it would also seem desirable that Counsel for all of the Federal Reserve Banks be given an opportunity to consider a draft of the proposed instructions before they are issued. The Board and its staff will be glad to assist in facilitating prompt consideration of the matter.

"Mr. Smead has advised me that he and Mr. Myrick attended a conference in Mr. Bartelt's office on the afternoon of Wednesday, June 3, at which this matter was discussed and that the Treasury Department sent representatives to the Federal Reserve Bank of Chicago on Monday, June 8, for the purpose of discussing the proposed new procedure and of working out details necessary to put it into operation. At Mr. Bartelt's request, Mr. Myrick and Mr. Cherry of the Board's staff accompanied the representatives of your Department on their visit to Chicago and will likewise accompany them on their expected visit to New York with reference to the same matter.

"It is noted that the appropriation of the Treasurer of the United States is not legally available for making reimbursement to the Federal Reserve Banks for the payment of regular Government checks (other than emergency relief checks); but that the Office of the Treasurer of the United States has under consideration the question of obtaining the necessary legal authority. In view of the additional burdens being placed upon the Federal Reserve Banks, it is hoped that the Treasury will obtain the necessary legislation for this purpose at an early date."

Approved unanimously, together with
the following letter to the Presidents of
all the Federal Reserve Banks:

"There are enclosed for your information copies of correspondence between the Treasury and the Board with respect to the desire of the Treasury to use a tabulating card form of check for the purpose of making disbursements by the Chicago and New York offices of the Treasury's Division of Disbursement.

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"As you will note, these checks would be drawn on the Treasurer of the U. S. payable through the Federal Reserve Banks of Chicago and New York, which would pay them as agents of the Treasurer of the U. S. in a manner similar to that in which Emergency Relief checks are now being handled. It is the desire of the Treasury that such checks be received for immediate credit at other Federal Reserve Banks, which would be authorized to charge them to the Treasurer's account.

"The Board will appreciate any comments you may wish to make with respect to this proposal."

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.