

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 12, 1942, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Thurston, Special Assistant to the  
Chairman

Chairman Eccles presented for consideration and approval a revised draft of the letter prepared for his signature to banks and financial institutions relating to the use of credit in connection with the accumulation of inventories of consumer goods, which had been changed in accordance with suggestions made in connection with the draft considered at the meeting of the Board on June 11, 1942.

The letter was discussed and approved in the following form, with the understanding that Chairman Eccles would submit copies thereof to the agencies mentioned in the first paragraph of the letter, and that if they had no objection the letter would be sent promptly. It was also understood that a copy of the letter would be wired to the Presidents of all the Federal Reserve Banks for their confidential information:

"Recently a meeting was held for the purpose of discussing the use of credit in connection with the accumulation of inventories of consumer goods. Among those present were the following: Mr. Morgenthau, the Secretary of the Treasury; Mr. Bell, the Under Secretary of the Treasury; Mr. Jones, the Secretary of Commerce; Mr. Nelson, the Chairman of the War Production Board; Mr. Henderson, the Administrator of the Office of Price Administration; Mr. Purcell, the Chairman of the Securities and Exchange Commission; and myself.

"There was complete agreement that in the present situation, when all possible production must be diverted to

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"military purposes, accumulation of inventories of civilian consumer goods should be discouraged. We are sure that it is perfectly clear to you why this is desirable from the standpoint of avoiding a possible cause of inflationary developments as well as of endeavoring to assure fair treatment of the needs of all dealers and all consumers.

"Various ways by which this purpose might be accomplished were canvassed. It was agreed that, irrespective of such steps as it may be necessary to take under the authority of legislation or Executive Orders, it is of the utmost importance to enlist your voluntary cooperation and that of your customers in helping to achieve this objective. It was felt that banks and other financing institutions especially are in a position to exercise an important influence, particularly because in many instances the accumulation of civilian goods may be facilitated through the use of credit.

"It is hoped that you will use your influence in your community and particularly among your own customers to bring home to them the gravity of the situation and the need for curtailing their purchases of civilian goods to the absolute minimum current requirements of their customers. In addition, will you kindly scrutinize carefully every application which might enable a borrower to carry a greater supply of goods than the minimum which he needs currently and do everything you can to enlist his personal cooperation.

"In this connection it was not overlooked that at this season of the year it is not desirable to do anything to discourage getting into the hands of consumers as soon as possible the supply of fuel they will need for heating purposes during the coming winter. Nothing in this letter is intended to interfere with that.

"This letter is written to you at the request of the group mentioned at the beginning. You have already rendered and are rendering great service in connection with the financing of the war program, and this additional responsibility is one which it is believed you will be glad to undertake in the general public interest. We feel sure that we can rely upon your cooperation."

At this point, Mr. Thurston left the meeting and Mr. Bethea, Assistant Secretary, and Mr. Clayton, Assistant to the Chairman, entered the meeting.

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There was presented a memorandum dated June 10, 1942, from Mr. Cravens, Administrator for the War Loans Committee, recommending increases in salaries of employees in his office.

The recommendations were discussed, and salary increases in the Office of the Administrator were approved as follows, effective as of June 16, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Gardner L. Boothe, II	Assistant Administrator for the War Loans Committee	\$6,000	\$7,000
Frederica R. Lockhart	Secretary to Mr. Cravens	2,000	2,200
Catherine E. Hopping	Clerk-stenographer	1,680	1,800
Mary E. Holmes	Clerk	1,440	1,560

The action stated with respect to each of the matters herein-after 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 11, 1942, were approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve

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Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on June 9, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas on June 11, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 10, 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 after having passed satisfactorily the usual physical examination, Donald C. Niles be appointed as an Assistant Federal Reserve Examiner on a temporary basis, with salary at the rate of \$3,400 per annum, and with official headquarters at Washington, D. C.

By unanimous vote, Mr. Donald C. Niles 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 Washington, D. C., and with salary at the rate of \$3,400 per annum, all effective as of the date upon which he enters

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upon the performance of his duties after having passed satisfactorily the usual physical examination.

Memorandum dated June 10, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Bonnie B. Blake be appointed as a clerk-stenographer in that Division, with salary at the rate of \$1,440 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 June 9, 1942, from Mr. Nelson, Assistant Secretary, recommending that the following increases in salaries of employees in the Secretary's Office be approved, effective as of June 16, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
<u>Secretarial and Administrative Functions</u>			
Elizabeth L. Carmichael	Stenographer	\$1,740	\$1,800
Fannie A. Kramer	Stenographer	1,620	1,740
E. Katharine Meiser	Clerk-stenographer	1,920	1,980
Charlotte N. Mitchell	Secretary to Mr. Bethea	1,800	2,000
Louise Thomason	Clerk-typist	1,620	1,680
Grover C. Knight	Index Clerk	1,500	1,620
<u>Building Operation and Maintenance Functions</u>			
Edward D. Rogers	Laborer	1,080	1,200

Approved unanimously.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

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"Referring further to your letter of May 23, 1942, the Board of Governors approves payment of salaries to the following officers of the Bank for the year beginning May 1, 1942, at the rates fixed by your Board of Directors:

W. J. Davis, Vice President	\$14,000
E. C. Hill, Vice President	11,000
C. A. Sienkiewicz, Vice President	10,000
L. E. Donaldson, Assistant Vice President	7,000

"In accordance with the action taken by your Board of Directors at a meeting on June 5, 1942, as advised by your letter of June 8, 1942, the Board of Governors approves a salary at the rate of \$10,000 per annum for Mr. C. A. McIlhenny, Vice President and Cashier, for the period July 1, 1942 to April 30, 1943."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Referring to your June 2 letter, the Board feels that whatever benefits may properly be accorded to male employees who leave the service of the Federal Reserve Bank to enter military service or to render special service to a Government Department or Agency should be accorded under like circumstances to female employees."

Approved unanimously.

Letter to the board of directors of "The Peoples Bank", Beaufort, South Carolina, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, 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 Richmond:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$3,045 as shown

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"in the report of examination of such bank as of March 23, 1942, made by an examiner for the Federal Reserve Bank of Richmond."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Peoples Bank', Beaufort, South Carolina, 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 Chief Examiner for the State of South Carolina for his information.

"The management has assured the Reserve Bank that the past practice of speculating in securities has been definitely discontinued and that a sound investment program is being followed, that steps will be taken to reduce the ratio of public funds on deposit to the total deposits of the bank, and that earnings will be conserved to strengthen the capital. The Board has approved the bank's application on the assumption that the Reserve Bank believes that the management can be relied upon to carry out those assurances, and on the understanding that the Reserve Bank recognizes the case as borderline and intends to give the bank close supervision to see that the assurances are carried out. It will be expected in this connection that a follow-up investigation will be made within a reasonable time after the bank becomes a member and a report made to the Board.

"With respect to the bank's capital, it might be well to call the management's particular attention to standard condition of membership numbered 2 and point out that if adequate capital cannot be maintained through conserving earnings, the introduction of additional funds from outside sources will be expected under the condition."

Letter to the board of directors of the "Citizens State Bank", Hempstead, Texas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves

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the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas.

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

Letter to Mr. Strathy, Assistant Cashier of the Federal Reserve Bank of Richmond, reading as follows:

"This is in answer to your letter of June 2 enclosing correspondence with the Rotary Club of Florence, South Carolina.

"This club makes loans from time to time to students to carry forward college courses. The loans do not call for two or more scheduled payments, so that, as you have pointed out, they are not instalment loans as defined in Regulation W and consequently are not excepted from the regulation by section 8(c) relating to educational loans. The club requests in effect that a similar exception should be made for single-payment loans. This suggestion, which amounts to a request that the regulation be amended, will be given careful consideration, and we have made a note of the fact that the matter should be decided before college opens next fall."

Approved unanimously.

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

"Retel 11. Board agrees with all three of your conclusions with respect to meaning and application (under Regulation W) of 'upholstery' in Board's letter S-492-a."

Approved unanimously.

Letter to Honorable Preston Delano, Comptroller of the Currency, reading as follows:



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"The Board has recently adopted a comprehensive program for the enforcement of Regulation W which it issued pursuant to the authority contained in the Executive Order issued by the President on August 9, 1941 (Federal Register, August 13, 1941, page 4035). For your information in this connection, there is enclosed a copy of a letter dated May 28, 1942 which the Board has forwarded to the Presidents of all the Federal Reserve Banks, together with an outline of the enforcement program. In view of the interest of the Department of Justice in matters of this kind, this program has been cleared by the Board with that Department. In this connection, there is enclosed a copy of a letter the Board has received from the Department of Justice, together with a copy of a circular which that Department has sent to all of its United States Attorneys.

"In order to avoid duplication of steps to discover violations of the regulation, the Board would like to have the cooperation of your office with respect to any violations which may occur in national banks and Credit Unions subject to your supervision. Specifically, we would like to have the cooperation of your office along the following lines:

1. Take such steps as you deem appropriate in the examination of such institutions to determine whether violations of Regulation W exist;
2. If violations are discovered which in the opinion of representatives of your office are inadvertent, take steps to obtain correction of the violations along the lines which it is contemplated will be taken by the Federal Reserve Banks in similar circumstances under section IIA of the enclosed outline of enforcement program; and
3. If violations are discovered which in the opinion of representatives of your office are apparently willful and steps should be taken to determine whether penalties should be prescribed, report the facts in the case to the Federal Reserve Bank of the district in which the apparently willful violation occurs.

"In carrying out the above program, we would like to have representatives of your office and appropriate

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"representatives at the various Federal Reserve Banks maintain close informal contacts in order that the Federal Reserve Bank representatives may be of all possible assistance to you in your cooperation with us in this matter.

"For your information, the Federal Deposit Insurance Corporation has been requested to cooperate with the Board in the enforcement of Regulation W in so far as nonmember insured banks and Federal Credit Unions are concerned. We understand informally that the Corporation's cooperation will be along the lines of the above and expect to receive formal advice to that effect from the Corporation."

Approved unanimously, together with  
a similar letter to Honorable Leo T.  
Crowley, Chairman of the Federal Deposit  
Insurance Corporation.

Letter to Honorable E. E. Cox, House of Representatives, reading as follows:

"Receipt is acknowledged of your communication of June 8, 1942, enclosing a letter from Mr. C. C. Sapp, Southern Specialty Co., Albany, Georgia, regarding Regulation W. Mr. Sapp enclosed a form of contract and asked whether it would be possible for his company to operate its business on the same terms as in previous years.

"The contract appears to be a lease with an option to purchase, and is therefore an instalment sale contract within the meaning of the Regulation. If the articles being sold are 'listed articles' (as appears to be the case in view of Item 15 and Item 41, in Group A of section 13(a) of the Regulation), such contracts are subject to the provisions of section 4, which contains certain requirements as to down payments, instalments, etc. A copy of the Regulation is enclosed.

"Assuming that the terms required by the contract comply with the requirements of section 4, and that the other requirements of the Regulation are met, there is nothing in the Regulation which would prevent the company from continuing to use a contract of the kind enclosed with Mr. Sapp's letter.

"The administration of the Regulation has been decentralized, and if Mr. Sapp has any further inquiries

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"regarding it, he will probably find it more convenient to address them directly to the Federal Reserve Bank of Atlanta.

"As requested, Mr. Sapp's letter is returned to you herewith."

Approved unanimously.

Letter to Honorable Brent Spence, House of Representatives,  
reading as follows:

"With your letter of June 8 to Mr. Parry, you referred to us an inquiry addressed to you June 5 by Mr. Oscar H. Forster, Secretary of the Campbell County Protestant Orphans' Home, Newport, Kentucky.

"The accounts of which Mr. Forster speaks represent extensions of credit to eleemosynary institutions and therefore are exempt under the terms of Section 8(1) of Regulation W from the requirement to which he refers.

"A copy of the regulation is enclosed for your information."

Approved unanimously.

Telegram to Mr. Lindsten, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"Retel June 6, suggest that form F.R. 158 Transportation Exemption Certificate with 'Victory Fund Committee' substituted for 'Federal Reserve Bank of' be used in obtaining transportation for members of Victory Fund Committee whose traveling expenses are paid by your Bank on a reimbursable basis."

Approved unanimously, with the understanding that the telegram would be quoted in a wire to the Presidents of all the Federal Reserve Banks.

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Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.