

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 16, 1942, at 3:00 p.m.

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

Mr. Morrill, Secretary
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 15, 1942, were approved unanimously.

Memorandum dated June 12, 1942, from Mr. Nelson, Assistant Secretary, recommending that the temporary appointment of Grover C. Knight, index clerk in the Secretary's Office, be made permanent, effective June 16, 1942.

Approved unanimously.

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

"Referring to your letter of June 11, 1942, the Board of Governors approves the payment of a salary to Mr. William W. Turner, Assistant Cashier, at the rate of \$5,500 per annum, for the period June 16, 1942 to March 31, 1943."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

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"In accordance with the requests contained in your letters of June 10, the Board approves the appointment of Robert L. Wilcox as an assistant examiner for the Federal Reserve Bank of Minneapolis, and the designations of the following as special assistant examiners:

Morris G. Anderson

Napoleon J. Raiche

Douglas C. Kelly

Marcus O. Sather

Arthur J. McNulty

John W. Taylor

Please advise us of the date upon which the appointment of Mr. Wilcox becomes effective."

Approved unanimously.

Letter to the board of directors of "The Peoples Bank", Pikesville, Maryland, 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 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', Pikesville, Maryland, 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 Maryland for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership regarding elimination of losses has not been prescribed.

"The papers submitted with the bank's application

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"did not include a copy of the form of capital debentures which the bank sold to the R.F.C. and it will be appreciated if you will forward a copy for the Board's files."

Letter to the board of directors of the "Union Bank of Michigan", Grand Rapids, Michigan, 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 Chicago:

- "4. Prior to admission to membership the directors of such bank shall take such action as is necessary to create a reserve in the amount of \$150,000 to be used only for the payment of dividends in capital stock and shall agree to increase the capital stock to at least \$500,000 immediately following the next annual meeting of stockholders, pursuant to authorization for such increase obtained from stockholders at that meeting."

Approved unanimously, together with a second letter to the bank, reading as follows:

"In connection with the application for membership in the Federal Reserve System, the Board of Governors of the Federal Reserve System approves the retention and operation by the Union Bank of Michigan, Grand Rapids, Michigan, after admission to membership, of the branch at Home Acres (Wyoming and Paris Townships, Kent County), Michigan, the establishment of which was approved, effective as of January 22, 1942, by the Commissioner of the Banking Department of the State of Michigan."

In connection with the above matter, unanimous approval was also given to the following letter to Mr. Young, President of the Federal Reserve Bank of Chicago:

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"approves the application of the 'Union Bank of Michigan', Grand Rapids, Michigan, 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 Commissioner of Banking for the State of Michigan 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 the elimination of losses has not been prescribed.

"Enclosed is a letter approving the retention and operation of the branch at Home Acres, Michigan, which you are requested to forward to the board of directors of the applicant bank. Enclosed also is a copy of the letter for your files."

Letter to Mr. Lewis, Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Chicago, made as of April 11, 1942, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also furnished President Young.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

Letter to Mr. Arthur M. Allen, of the firm of Hinckley, Allen, Tillinghast & Wheeler, Counselors at Law, Providence, Rhode Island, reading as follows:

"We have delayed replying to your letter of June 2 in order to contact the War and Navy Departments with respect to the feasibility of their furnishing satisfactory

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"evidence that the 'Contractor's Copy' of the contract is an exact copy of the contract actually signed by the proper authorities.

"Major Richard G. Croft, Acting Chief, Advance Payment and Loan Section, Fiscal Division, War Department, has advised me that Lt. Col. Foy of the Procurement and Distribution Division, is in sympathy with the desire of financing institutions to have certified copies of contracts on which assignments have been made, except, of course, in those instances where the contracts are of such a nature that their terms could not be disclosed. He also advised me that he feels that if specific information is furnished to Lt. Col. Foy as to the contracting officers involved, a satisfactory arrangement can probably be worked out.

"We have also been advised by Mr. Sidney Mitchell, Chief of Finance Section, Navy Department, that if a contractor wishes to have a conformed copy of the contract, he should send the contract to the contracting officer with the request that it be signed or that it be returned with a statement that it conforms in all details with the original of the contract filed with the General Accounting Office. Such a request should be accompanied by a brief statement as to the reasons for needing the conformed copy.

"It is believed that the procedures suggested by Major Croft and Mr. Mitchell will prove more satisfactory all around than sending the contracts to the Board's Division of Bank Operations for checking. We are, however, glad to have been of assistance in these matters."

Approved unanimously.

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

"Your wire June 12. Last paragraph of S-490 (interpretation of Regulation W to the effect that a renewal or revision of a loan which was originally more than \$1,500 is not subject to the regulation even though the balance at the time of the renewal or revision is less than \$1,500) refers to instalment loans as well as single-payment loans."

Approved unanimously.

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

"We have read with interest the copy of the letter received by you from Mr. William Howard Beasley, President of the Whittle Music Company, Dallas, and enclosed with your letter of June 1.

"As you know, we receive a large number of letters from people in different positions and lines of business protesting about various features of consumer credit regulation that directly affect them. It is apparent, as it has been all along, that the effects of the regulation are being felt. This, of course, was the intention. It is also apparent that the effects of the regulation are being felt not unfairly in any one line, but in all lines subject to the regulation. To relax the regulation wherever its effects are felt would nullify it.

"The situation was described by the President in his April message to Congress and also in his April radio address when he said: 'The only effective course of action is a simultaneous attack on all of the factors which increase the cost of living in one comprehensive, all embracing program covering prices, profits, wages, taxes and debts'.

"With respect to pianos in particular, it may be pointed out that, as Mr. Beasley indicates, new piano production has stopped. It seems clear in consequence of this fact that over a period the supply of new pianos will be short of the demand. This is the very situation for which instalment credit control has been adopted, in respect both to down payments and maturities.

"Mr. Beasley apparently is of the opinion that the importance of music has been underestimated in determining the terms of the Board's regulation. However, the Board does not think that this is the case. That the regulation is not inequitable in this respect may be suggested by the fact that almost every article, the sale of which has been affected by the regulation, has been represented to us as of essential value in maintaining morale and in otherwise contributing to a successful war effort.

"Although it does not appear that grounds exist for a modification of the regulation with respect to piano sales any more than with respect to many other things, we trust that Mr. Beasley realizes that the Board is not indifferent to the effects of its regulation and does not

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"wish to be arbitrary. The effects of the regulation are constantly under study and the continuance of given requirements by no means implies that consideration of them is being neglected."

Approved unanimously.

Letter to the Lee Fabric Corporation, Cleveland, Ohio, reading as follows:

"This will acknowledge your letter of June 5, 1942, referring to the application of the Board's Regulation W to reupholstering. You make the point that it is discriminatory to require a down payment of 33-1/3 per cent for reupholstering while only 20 per cent is required for the purchase of furniture. This clearly implies, although your letter does not so state, that it is the use of instalment credit that you have in mind -- because no down payment is required on sales in charge accounts.

"You will note from an examination of the regulation that it is now designed on the principle that, with a few exceptions, the minimum down payment and the maximum maturity should be uniform for all types of articles. Furniture is one of the exceptions, as a lower down payment is specified for furniture. This exception was made for several reasons, one of which is that up to now there has been no shortage of the basic material, wood.

"We are sure that you appreciate the need for the curtailment of credit in a period when consumers' incomes greatly exceed the goods available to them. There are three ways in which a surplus consumer purchasing power can be kept out of the market for the diminishing supply of goods, (1) by taxation, (2) by investment in War Bonds, and (3) by the payment of personal debt. If Government induces the payment of personal debt to the extent of several billions of dollars, this desirable objective would be completely neutralized by permitting the creation of new consumer debt at the same time. We hope that this will give you a general idea of the current thinking on the problem of consumer debt and will enable you to understand that in the process of stabilizing the cost of living this important economic field must not be overlooked.

"In the administration of the consumer credit regulation, we have consistently tried to put the brakes on

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"with discretion and not in a manner which would be destructive of business or work too great hardships. We know that you recognize that the business of some establishments will not be as good as it has been in the recent past for reasons that spring directly from the need to convert a large share of our productive capacity to war purposes. But it has never been our desire that Regulation W have the effect of eliminating any firms from business and we shall continue to give every possible consideration to the problems of individual types of business so long as the objective can be reached in a way which is administratively feasible.

"We are glad to have your comments and will study them carefully. In view of current developments, it would seem more likely that the down payment on furniture would be raised than that the down payment on upholstery would be reduced.

"The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches. It is suggested that you may wish to address future communications to the Federal Reserve Bank of Cleveland."

Approved unanimously.

Thereupon the meeting adjourned.

Charles Morris
Secretary.

Approved:

W. C. C. C.
Chairman.