A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 18, 1942, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
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 hereinafter 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 17, 1942, were approved unanimously.

Memorandum dated June 16, 1942, from Mr. Nelson, Assistant Secretary, submitting the resignation of Albert J. Sadler as a guard in the Secretary's Office, to become effective as of the close of business on August 9, 1942, so that he might go into service with the United States Coast Guard, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of your Bank as requested in your letter of June 11, 1942."

Approved unanimously.
Letter to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of your Bank and the Helena Branch as requested in your letter of June 13, 1942."

Approved unanimously.

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

"Regarding question whether pay roll deduction orders may be accepted as down payment required by Regulation W, following general principles are applicable: (1) a pay roll deduction order covering wages not yet earned cannot be accepted as the required down payment; (2) the same is true of an order covering wages earned but not yet payable; (3) a pay roll deduction order covering wages which are earned and payable on demand may be accepted as the required down payment in the same manner as a check on a bank."

Approved unanimously.

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

"This refers to your letter of June 2, 1942, regarding the effect of Regulation W upon certain loans to school teachers.

"You say that in many localities, school boards have been unable to raise funds needed to make prompt payment of teachers' salaries, which normally are paid monthly or semi-monthly. In some instances the difficulty of the school board has persisted for two or three years. Where this situation has prevailed, school teachers have found it necessary to borrow money on single-payment loans with at least a six months' maturity. The school board has certified to the lending bank that the amount of the loan is to be used solely to meet the teachers' salaries."
"is due to the teacher, and it subsequently pays the amount directly to the lending bank.

"You state that your counsel has advised you that these loans are not exempt under section 8(1) as loans to a school or political subdivision, and, further, that he does not believe that the loans are to persons with seasonal incomes so as to be given special treatment under section 9(c).

"There would seem to be no basis for reaching a different conclusion with respect to section 8(1), and it is clear that section 9(c) should not be deemed to be applicable to every person who does not receive his income as regularly as he had expected. On the other hand, where the situation with respect to the school income has persisted for some time it is conceivable that the facts might be such that the Registrant could accept in good faith a statement to the effect that the borrower customarily receives 75% or more of his income during one or two specified seasons of the year from seasonal sources.

"It is assumed that the banks and other interested persons have given consideration to the possibility of lending money to the school board instead of to the teachers and thus bringing the loan under section 8(1)."

Approved unanimously.

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

"Your wire June 13. Board is of the opinion that Regulation W is applicable to local production credit corporation to same extent as other lending agencies. In this connection S-402 may be of interest."

Approved unanimously.

Letter to Mr. Hodgson, Assistant Counsel of the Federal Reserve Bank of Minneapolis, reading as follows:

"Thank you for your letter of June 11 enclosing a letter from Mr. A. C. Stevensen containing constructive
"suggestions with respect to section 5(d) of Regulation W.

"As you already know, the Board has been aware of the possibility that section 5(d)(2), permitting a default in a charge account to be cured by the execution of a 6-month instalment agreement without any down payment, is susceptible of abuse. On the other hand, as pointed out in our letter of May 25 to you on this subject, it would seem desirable for the Board to obtain the results of some experience before passing on an amendment to change or repeal section 5(d)(2).

"In this connection the Board will want to obtain information as to the extent to which credit extended in charge accounts since the effective date of section 5 is converted into instalment credit on the basis permitted by section 5(d)(2), the extent to which such conversions may be concentrated at particular stores or particular classes of stores, the extent to which stores do in fact require down payments in connection with such conversions, and the extent to which merchants may be making charge sales with an understanding that the credit will be converted under section 5(d)(2) -- such understanding being in violation of the regulation as interpreted by the Board's telegram S-471. It would seem likely that Mr. Stevenson, in view of his position as Secretary of the Retail Credit Association of Minneapolis, may be able to furnish material assistance in developing information along these lines, and any such information when it becomes available will, of course, be greatly appreciated by the Board and its staff."

Approved unanimously.

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

"Your letter of June 6, 1942, contains two inquiries regarding section 8(b) of Regulation W.

"Your first question is whether savings passbooks are 'investment securities' within the meaning of that section, and in this connection you refer to the Board's letter S-484 dated May 23, 1942 which said, in effect,
"that investment certificates issued by building and loan associations were 'investment securities'. Although there are points of similarity between the two, the Board has not regarded savings passbooks as 'investment securities' for the purposes of section 8(b).

"Your second question relates to the meaning of the word 'carrying' in section 8(b). The word has the same general meaning as in section 3(b) of Regulation U. In effect, this confines 'carrying' to the refinancing of indebtedness which was originally incurred for the purpose of purchasing stocks, bonds, or other investment securities. The mere fact that the extension of credit is secured by such investment securities is not sufficient."

Approved unanimously.

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

"Thank you for your telegram of June 15, 1942, concerning the way in which the Southern Pacific Railroad Company is solving the watch problem.

"We had hoped that some similar plan could be worked out by all of the railroads, but the difficulty seems to be that there is a scarcity of watches for lending purposes. Eastern railroads anticipate that the real pressure will come in the Fall when a large number of employees must be added because of increased traffic at that time. It rather appears that an amendment will be necessary. There is a possibility that this may be safeguarded by relating it to an order of the War Production Board, limiting sales to railroad employees who obtain certain certifications from their supervisors."

Approved unanimously.

Letter to Mr. John B. Blandford, Jr., Administrator of the National Housing Agency, reading as follows:

"This is with reference to your letter of June 4, 1942, addressed to Chairman Eccles, which outlines a
"proposed change in the procedure for the designation of remodeling or rehabilitation projects as 'defense housing' for purposes of section 8(e) of the Board's Regulation W.

"The Board has considered the proposed change and has no objection to the proposal. A few minor suggestions as to the wording of your order and form have been made by members of the Board's staff and are incorporated in the attached memorandum.

"As soon as the order and form have been adopted, we should like to have about 75 copies of each so that we may inform the Federal Reserve Banks. They will also need a supply for distribution to applicants although we assume that most of this distribution will be effected by the Federal Housing Administration."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, with a copy to the liaison officers, reading as follows:

"Referring to the Board's letter of September 22, 1941, R-388, there is enclosed for your information a summary of the May 1942 reports of the activities of Federal Reserve Bank liaison officers in connection with the War Savings Program.

"Since the monthly reports of the liaison officers appear to have served the purpose for which they were originally intended, they need no longer be submitted to the Board as requested in its letter of September 2, 1941, S-296."

Approved unanimously.

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

"Understand that Treasury may have an overdraft at Reserve Banks on one or two of the next few days. Assuming that certificate will be given to New York to cover amount of overdraft and that such certificate will be participated in by all Federal Reserve Banks, please advise whether you would prefer to have someone remain at your Bank at night until definitely known whether there
"will be an overdraft and amount thereof so that payment account your participation may be included in your settlement fund wire, or whether you would prefer to have adjustment made by special transfer on following morning as of preceding day. Expect procedure regarding future overdrafts will be discussed at Presidents meeting on Monday."

Approved unanimously, together with a telegram to Mr. Sproul, President of the Federal Reserve Bank of New York, quoting the above telegram.

Letter to Mr. Francis C. Brown, Solicitor of the Federal Deposit Insurance Corporation, reading as follows:

"Reference is made to your letter of May 20, 1942, in which you inquire whether there is any rule or practice restricting the certification of checks and drafts by Federal Reserve Banks at the request of public finance officers or nonmembers of the Federal Reserve System. "No rulings or instructions have been issued by the Board on this subject. We understand, however, that a number of the Federal Reserve Banks are reluctant to issue cashiers' checks or to certify drafts drawn on them by member banks and nonmember clearing banks when they know or have reason to believe that the checks or drafts are to be outstanding for a considerable length of time. Federal Reserve Banks do not issue cashiers' checks or certify drafts at the request of banks that are neither member banks nor nonmember clearing banks, or at the request of public finance officers. As you know, however, some of the Federal Reserve Banks do issue cashiers' checks to or certify drafts by member banks and nonmember clearing banks when it is known that they will be used as collateral for deposits of public finance officers."

Approved unanimously.

Memorandum dated June 18, 1942, from Mr. Vest, Assistant General Counsel, submitting the following Treasury press release which had been prepared by the Treasury in consultation with members of the
Board's staff. The memorandum stated that Mr. Szymczak had approved the press release and would like to advise the Treasury as promptly as possible whether the statement met with the approval of the Board:

"The Government's campaign to conserve vital materials, manpower and machinery needed in the war effort was further accelerated today by the announcement of Secretary Morgenthau that the Treasury Department is endeavoring by all available means to reduce to a minimum the necessity for drawing on stocks of copper, nickel, silver and paper in making coins and printing currency during the war emergency. To this end, he is appealing to every person in the United States to help in this war conservation program by keeping all existing coins and currency in public circulation and in the banks.

"Persons who have been thriftily saving in coin banks, jars, and other home repositories are urged to discontinue this practice and to invest their accumulated coins and currency in War Savings Stamps, adopting in the future the slogan, 'Save with War Savings Stamps'. The Secretary pointed out that if this accumulation of pennies, nickels, dimes, quarters and half-dollars is continued, more coins will have to be manufactured by the mints to take the place of those removed from public circulation. Similarly, every extra dollar bill that a person carries in his pocket or salts away at home rather than keeping it in his bank account means that the Government has to print new bills to take the place of the ones thus taken out of daily use. He emphasized that a vast amount of labor, machinery, vital materials and paper can be conserved and the war effort thereby aided.

"I am confident', Secretary Morgenthau said, 'that we will have the wholehearted cooperation of the public in this effort when they understand how important it is to avoid all needless minting and printing of money by keeping existing supplies in circulation, preferably by investment in War Savings Bonds.

"During the last fiscal year the minting of coins consumed 4,700 tons of copper, 434 tons of nickel, 34 tons of tin, 137 tons of zinc, 1221 tons of silver, and if the present rate of coinage continues, 2,100,000 man hours of labor will be required this year for coinage alone. The program of the mints is designed to divert materials and labor to war production wherever possible and at the same
"time to reduce the wear and tear on machinery which is now difficult to replace.

"Likewise, great savings can be accomplished in the use of paper currency, the demand for which always rises in times like these when the national income is increasing and production is expanding. Vast quantities of paper, ink and nylon are required to meet this demand. The unnecessary holding of currency wastes vitally needed labor and means wear and tear on machinery.

"The amount of currency in circulation is now greater than ever before in our history. A determined effort on the part of the public to reduce the amount of cash they carry in their pocketbooks or accumulate outside of the banks and other institutions where savings may be deposited, and thus kept in use, will contribute definitely and in a practical way to the war effort. This is the time to be thrifty and to save. The best way of all is to invest your extra cash with Uncle Sam.'

"As part of this program, Secretary Morgenthau, after conferring with the Federal Reserve Board, has requested the Federal Reserve Banks to make available for issuance when needed for currency circulation existing stocks of Federal Reserve notes of the series of 1928, amounting to $4,200,000,000. These are notes which were printed, cut and packaged and on hand in 1934 when the new series of Federal Reserve notes was issued. In addition, the Treasury Department and the Federal Reserve System will utilize another existing stock of currency printed in the early 30's, known as Federal Reserve Bank notes, amounting to $59,000,000.

"By making available for use, as needed, these existing stocks of unused paper currency, it is estimated that more than $2,000,000 will be saved in the cost of printing new currency -- or enough to purchase 20,000 Garand rifles. Moreover, the saving in paper will amount to 240 tons, and 1,200,000 man hours of labor in addition to large quantities of nylon and ink.

"The $4,200,000,000 stock of Federal Reserve notes of the series of 1928 bear the legend 'redeemable in gold on demand at the United States Treasury or in gold or lawful money at any Federal Reserve Bank'. They are, of course, redeemable in lawful money, but the Treasury no longer pays out gold for currency. These notes, as well as the Federal Reserve Bank notes, are essentially the same as other currency now in daily use."
"In a further effort to conserve copper, the Treasury Department recently entered into an agreement with the Defense Plant Corporation to make available approximately 47,000 tons of the 'free silver' stocks of the United States to be used in place of copper in plants engaged in war production. The Treasury Department is also currently discussing with the Senate Silver Committee ways and means which will permit the remainder of our huge stocks of silver to be used in war production."

Approved unanimously, with the understanding that the Treasury would be advised informally of the Board's approval.

Thereupon the meeting adjourned.

Chairman.

Chester Morris
Secretary.

Approved: [Signature]

Chairman.