

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 26, 1942, at 11:10 a.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. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Thurston, Special Assistant to the
 Chairman
 Mr. Wyatt, General Counsel
 Mr. Paulger, Chief of the Division of
 Examinations
 Mr. Dreibelbis, Assistant General Counsel

There were presented telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Bilby, Assistant 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, Messrs. Ziemer and Coleman, Vice Presidents of the Federal Reserve Banks of Minneapolis and Dallas, respectively, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on June 23, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas on June 25, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in

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their existing schedules.

Approved unanimously.

At Mr. McKee's request, consideration was given to a draft of letter to the Presidents of all the Federal Reserve Banks discussing certain suggestions with respect to reducing to some extent the present program of examinations by the Federal Reserve Banks of State member banks and asking for the comments and suggestions of the Federal Reserve Banks on the matter along the lines set forth in the letter.

Mr. Ransom inquired whether the adoption of a reduced program of bank examination would be consistent with the responsibilities assumed by the Federal bank supervisory agencies, as announced in the statement released to the press under date of May 8, 1942, relating to the reduction of outstanding consumer credit. During the discussion of this point, the suggestion was made that the responsibility of the System in this field, as well as in the field of restricting the use of credit for the purpose of carrying inventories, to which reference was made in Chairman Eccles' letter of June 17, 1942, to banks and financing institutions, might be met adequately by special investigations in which the credit policies of the banks could be checked without the necessity of making a complete examination, so that the responsibility of the System would not need to be adversely affected by some reduction in the number of full examinations of State member banks. There was unanimous agreement that the draft of letter to the

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Federal Reserve Banks should be amended to cover this point.

Thereupon, Mr. Szymczak moved that the letter be amended in the manner suggested and sent upon approval by Messrs. Ransom and McKee.

This motion was put by the chair and carried unanimously.

The letter as approved by Messrs. Ransom and McKee was in the following form:

"The problem of maintaining an adequate examination staff in these war times is already acute at some of the Federal Reserve Banks, and undoubtedly will become more general and more acute. In some districts, at least, it is probable that limitations on the use of automobiles may further accentuate the problem by increasing the time required for the examiners to cover the territory. In the circumstances, it seems well to exchange ideas as to what may be done to meet the situation and maintain the effectiveness of Federal Reserve supervision of State member banks.

"The System policy which has been in effect for several years calls for the Federal Reserve Banks to make at least one regular examination of each State member bank, including its trust department, during each calendar year and to make more frequent examinations when considered necessary or desirable.

"One suggestion which has been offered is that the above policy be modified to permit a reduction in the number of examinations. This might be applied as a policy to those banks where the known soundness of asset condition and adequacy of capital justify relaxing customary examination procedure. However the responsibility of the System for determining that the credit policies set out in the President's special message to Congress of April 27 and in the letter of June 17 from the Chairman of the Board to all banks and other financing institutions will require constant watchfulness to determine that bank management policies are in line with the national program of reduction of outstanding individual credit for nonproductive purposes and the reduction of credit for the accumulation of inventories of consumer goods.

"Under the plan proposed banks would be divided into three classes, with different schedules of examinations, as follows:

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"a. Banks whose record and asset condition reflect capable management, adequate capital, and sound asset condition would be examined once in two years.

"b. Banks in generally satisfactory condition but which do not clearly meet the high standard suggested for group (a) would be examined once every two years, but with a supplementary asset examination or follow-up investigation during the intervening period.

"c. Other banks would be examined once a year or oftener, as considered necessary.

"Such a program would contemplate the increased use for supervisory purposes of reports of condition, reports of earnings and dividends, reports as to reserve position, and other data which would reflect the asset condition or trends of the bank.

"Other suggestions have been advanced, such as:

"1. That time would be saved and more efficient use of personnel achieved if a Reserve Bank made more independent examinations, especially in the case of the smaller State member banks, and fewer joint examinations with the State authorities. In this connection it has been suggested that in some States where the State authorities are permitted under the law to accept, in lieu of their own examinations, reports of examinations made by the Federal Reserve Banks, the State authorities, who also undoubtedly are having their problems, might be persuaded to follow that practice. In those States which require two examinations a year, this could result in the State making one independent examination and the Reserve Bank another independent examination. In those States which required but one examination a year, this arrangement would permit the State examiners to concentrate on the examination of nonmember banks and on the joint examinations of the large member banks.

"2. It is possible that some changes in technique of examination procedure might result in a saving of time without weakening the effectiveness of the examination and would be justified in the present circumstances.

"3. It is also possible that some relief might be obtained by more effective use of the examination personnel through a greater use of special assistant examiners from the Reserve Banks for the clerical work of the examinations, thereby releasing the trained examining personnel for more difficult assignments.

"Undoubtedly your bank has been giving these matters much thought and has considered these and many other possibilities. It will be appreciated, therefore, if you will advise us:

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"(1) As to the adequacy of your examining staff and as to how it conforms to your desired distribution as to age, experience, and qualifications, -

- a. As it is at present;
- b. As you believe that it will be at the end of the year in relation to the membership at that time; and
- c. As it may be affected by losses of personnel to the armed forces.

"(2) Whether you feel that you can carry out the present policy of at least one regular examination each year, with such additional examinations and follow-up investigations as are considered necessary.

"(3) What suggestions you have to offer to maintain, and even increase the effectiveness of Federal Reserve supervision of State member banks in these times and the foreseeable future.

- a. To meet your own situation;
- b. Of general applicability."

Reference was then made to a letter dated June 19, 1942, from Mr. Gilbert, President of the Federal Reserve Bank of Dallas, in which it was stated that Mr. Jay Taylor, Chairman and Federal Reserve Agent at the Bank, had been commissioned as a Major in the United States Army and ordered to report for duty in Washington on June 22, and that at the meeting of the board of directors of the Bank on June 11, 1942, a resolution was adopted granting Mr. Taylor a leave of absence for the duration of the war, subject to the approval of the Board of Governors. The letter also stated that it was hoped that it would be possible for Mr. Taylor to continue as Chairman and Federal Reserve Agent and that, if it could be done, the Board of Governors would grant him a leave of absence.

Mr. Szymczak raised for discussion the question whether, in view of the duties and responsibilities of the Chairman and Federal

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Reserve Agent and Mr. Taylor's contemplated service in the armed forces, it would be consistent for him to continue in that position. It was suggested that, inasmuch as Mr. Taylor had filled the position in a most capable manner and the law provides that duties of the office can be discharged by the Deputy Chairman in the absence of the Chairman, it would be preferable to take no action at least until the end of the year, when his term as Class C director of the Bank would expire, and the matter could be considered again by the Board in the light of conditions existing at that time.

At the conclusion of the discussion, the Secretary was requested to prepare a draft of reply to Mr. Gilbert's letter for consideration by the Board.

Chairman Eccles stated that he had just received a telegram from Mr. Young, President of the Federal Reserve Bank of Chicago, stating that Chairman Lewis' letter of resignation as Class C director and Chairman and Federal Reserve Agent at the Chicago Bank and the letter signed by Chairman Eccles to Mr. Lewis advising of the Board's acceptance of the resignation effective July 1, 1942, were read at the meeting of the board of directors of the Chicago Bank on June 26, and that announcements of Mr. Lewis' retirement appeared in this morning's papers. It was stated that, while Chairman Eccles had talked to President Young over the telephone about the matter, no formal advice of the Board's action with respect to Mr. Lewis' resignation had been sent to the

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Federal Reserve Bank of Chicago.

The Secretary was requested to acknowledge receipt of Mr. Young's telegram and include in the acknowledgment advice of the acceptance of Mr. Lewis' resignation.

Chairman Eccles stated that, following the approval by the interested Government agencies of the letter addressed by him to all banks and other financing institutions on June 17, 1942, relating to the use of credit for the accumulation of inventories of civilian consumer goods, he had prepared a draft of letter to be sent to the examiners for the Federal Reserve Banks, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency, requesting that during the course of their examinations of banks they ascertain what was being done by the banks to comply with the request contained in the letter of June 17, that he had taken the matter up with Mr. Bell, Under Secretary of the Treasury, and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, that Mr. Crowley had agreed to cooperate, and that under date of June 23 a letter was received from Mr. Bell stating that he had discussed the draft of letter with the Office of the Comptroller of the Currency, which saw no objection to it and would be willing to see that it was placed in the hands of the national bank examiners. Chairman Eccles added that the letter, which was in the following form, was sent to the Presidents of all of the Federal Reserve Banks yesterday:

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"Under date of June 17, 1942, the enclosed letter relating to the use of credit in connection with the accumulation of inventories of civilian consumer goods was sent by the Board of Governors to all banks and other financing institutions at the request of the group referred to in the first paragraph of the letter.

"The Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors have agreed that the examiners for the three supervisory agencies should be instructed to ascertain during the course of their examinations of banks what is being done by the banks to comply with the request contained in the letter and, wherever necessary, to urge compliance.

"It is requested, therefore, that examiners make special inquiry during the course of each examination as to the consideration given by the bank to the Board's letter, the action taken by the bank in connection with it, and the bank's policy with respect to loans for the purpose of carrying civilian consumer goods inventories. Whenever it appears that the bank does not understand the reasons for the letter or the need for carrying out the suggestions contained therein, the examiner should discuss the matter with the appropriate officer of the bank and urge full cooperation. The reports of examination should include in each case comments relating to the extent to which the bank is cooperating and the examiner's views as to the effectiveness of any actions taken in reducing credit extended by the bank for what would be regarded, in the light of the Board's letter, as unwarranted accumulations of inventories of civilian consumer goods.

"In order to carry out the understanding that copies of this letter and its enclosure will be placed in the hands of all examiners for the three Federal bank supervisory agencies, it is requested that a copy be sent to each of your examiners. Extra copies are enclosed for that purpose."

Chairman Eccles went on to say that as the result of a suggestion by Mr. McKee the following letter was also being sent to the State Bank Supervisors:

"Recently I sent to all banks and financing institutions a letter relating to the accumulation of inventories of civilian consumer goods. This letter was

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"sent at the request of a group which included the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the War Production Board, the Administrator of the Office of Price Administration, and the Chairman of the Securities and Exchange Commission. A copy of this letter was mailed to you and, for your ready reference, I am attaching a copy.

"I am bringing this matter to your attention because we believe that you agree with the objective of this effort and that your cooperation will be most effective in bringing about the compliance of State banks with the program. In that connection you will be interested to know that the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Board of Governors are sending out instructions to the examiners in their respective organizations along the lines contained in my letter to the Federal Reserve Banks, a copy of which is enclosed. Since the examination of State banks is a primary responsibility of the State banking authorities, we would like to suggest for your consideration the desirability of similar instructions to the State bank examiners under your jurisdiction and we will be very much interested in being advised as to the steps taken and the effectiveness of the program."

All of the members of the Board expressed themselves as being in agreement with the action that had been taken and, upon motion by Mr. Ransom, the letters to the examiners and State Bank Supervisors were approved unanimously.

Mr. Ransom stated that he had been giving consideration to what, if any, further action might be taken in connection with the statement released to the press under date of May 8, 1942, with respect to the reduction of individual debt through the amortization of bank loans, in which it was stated that the examiners for the three Federal bank supervisory agencies were being instructed to pay particular attention in the course of their examinations to individual debt to determine

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whether it was being reduced and to any circumstances which might be preventing its reduction or its being put on an amortization basis, and that he was studying a suggestion that substantially uniform letters be addressed by the Board to the Federal Reserve Banks, by the Federal Deposit Insurance Corporation to its Supervising Examiners, and by the Comptroller of the Currency to the Chief National Bank Examiners, asking that they submit reports, based on their findings during examinations made since the instructions above referred to were issued, as to (1) whether consumer debt was being reduced, (2) if so, to what extent, (3) if not, the reasons therefor, and (4) the reaction of the banks to the press statement.

In a discussion of this matter all of the members of the Board indicated that they would be agreeable to sending such a letter, and it was understood that Mr. Ransom would supervise its preparation.

Chairman Eccles referred to reports which he had made previously to the Board of meetings which he had attended in the office of the Secretary of the Treasury for the purpose of discussing, among other things, the need of a Capital Issues Committee and the restriction of the use of credit for the purpose of financing inventories of consumer's goods. He stated that at a meeting of the same group last week Mr. Purcell, Chairman of the Securities and Exchange Commission, presented questions relating to the activities of certain investment trusts and uninsured building and loan associations which it was felt should be

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restricted, that as a result of the discussion it was agreed that attorneys from the Treasury and Commerce Departments, the Securities and Exchange Commission, and the Board of Governors should collaborate in the drafting of an executive order which would place in the Securities and Exchange Commission restricted authority to deal with these specific problems, and that, in accordance with that understanding, he had asked Mr. Dreibelbis to work with the attorneys assigned for the purpose by the other agencies.

Thereupon the meeting recessed and reconvened at 2:40 p.m. with the same attendance as at the morning session.

Mr. Morrill stated that subsequent to sending the Board's letter of June 22, 1942, to Mr. Patterson, Under Secretary of War, on the subject of the assignment of space in this building to the Inter-American Defense Board and the Brazilian-United States Defense Commission, letters were received under date of June 24, 1942, from Baird Snyder, Assistant Administrator of the Federal Works Agency, and under date of June 25, 1942, from Mr. Patterson asking that no reduction be made in the space now allotted to the Inter-American Defense Board, the letter from Mr. Snyder transmitting a request of the Space Committee that the present occupancy by the Inter-American Defense Board be permitted to continue indefinitely. The letters from Messrs. Patterson and Snyder were read, together with a draft of reply to the letter from Mr. Snyder, and the matter was discussed in the light of the Board's need of space for the office of the Division of Personnel Administration and the

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office of the War Loans Administrator and the fact that, based on the information available to the Board, the activities of the Inter-American Defense Board could be carried on in the eastern section of the first floor of the C Street wing.

At the conclusion of the discussion it was agreed unanimously that the most effective way to dispose of the matter would be for Chairman Eccles to discuss it with Mr. Patterson.

Chairman Eccles stated that he would do so at the first opportunity.

At this point Messrs. Thurston, Wyatt, Paulger, and Dreibelbis 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 25, 1942, were approved unanimously.

Memorandum dated June 23, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that William B. Pollard, a Federal Reserve Examiner, be appointed as Assistant Chief of the Division of Examinations, with an increase in his salary from \$6,000 to \$7,500 per annum, effective July 1, 1942.

Approved unanimously.

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

"The Board of Governors approves the change in the personnel classification plan of your Bank as requested in your letter of June 18, 1942.

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"It is noted from your letter that the increase in the retaining fee of the physician is based on the additional time he is required to spend in the service of the Bank due to an increase in the number of employees. It is, therefore, assumed that if the staff of the Bank is reduced after the war to approximately the prewar level the physician's retaining fee will be adjusted accordingly."

Approved unanimously.

Letter to Mr. Hays, Vice President and Secretary of the Federal Reserve Bank of Cleveland, 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 20, 1942."

Approved unanimously.

Letter to Mr. L. R. Rounds, Chairman of the Retirement Committee, Retirement System of the Federal Reserve Banks, New York, New York, reading as follows:

"This is to advise you that the Board of Governors of the Federal Reserve System on June 26, 1942, approved the revised Section 2 of the Rules and Regulations of the Retirement System of the Federal Reserve Banks adopted by the Board of Trustees of the Retirement System by mail vote, as set forth in your letter of June 22, 1942. A copy of this letter is being sent to Mr. McLarin, Chairman of the Board of Trustees."

Approved unanimously.

Telegram to Mr. Davis, President of the Federal Reserve Bank of St. Louis, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, the Board approves the application of the "Old Capital Bank and Trust Company", Corydon, Indiana, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis.

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The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank, and that, since it was understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, the Reserve Bank was authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice.

Approved unanimously.

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

"Board agrees with your letter of June 20 to Brittain Sales Company regarding Delco Farm Lighting Systems, in view of letter of January 28 to you, S-433 and Amendment No. 3 to Regulation W referred to therein."

Approved unanimously.

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

"Reference is made to your letter of June 6 with which you enclosed copies of correspondence with Mr. Jno. Q. McAdams, Commissioner of Banking of the State of Texas, who you state has been requested by the President of the

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"National Association of Supervisors of State Banks to formulate, if possible, a standard caption to appear at the top of the publisher's copy of the condition form which would be acceptable to the State banking authorities in the various States and to the Board of Governors.

"The caption submitted by Commissioner McAdams is satisfactory to the Board provided the words 'member of the Federal Reserve System' are added after the words 'a State Bank', so that the caption will read:

'Report of condition of (Bank) ,
of (City) , (County) , (State) ,
at the close of business (Date) , a State
Bank member of the Federal Reserve System, or-
ganized and operating under the banking laws
of this State. Published in accordance with a
call made by the State Banking Authorities and
by the Federal Reserve Bank of this District.'

"We welcome any suggestions which will make one publication of State member bank condition reports serve both State and Federal requirements. If the modification of the caption suggested above is not satisfactory to the State authorities, we shall be glad to have their further suggestions."

Approved unanimously.

Letter to Mr. R. F. Hollister, Executive Manager of the Independent Bankers Association, Portland, Oregon, reading as follows:

"This refers to your letter of June 16 with regard to Senate Bill 2393, 'relating to the publication in places where branch banks are operated of statements of resources and liabilities of banks, the deposits of which are insured under the provisions of section 12B of the Federal Reserve Act, as amended.'

"The publication of condition reports of banks and their branches is a subject that has been under consideration and study by the Board and its staff for some time. It is quite likely that the Board will later on have certain recommendations to make to Congress in regard to this subject, and we are glad to have your views. They will be given careful consideration in the continuing study of this question."

Approved unanimously.

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Letter to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is in response to your letter of June 5, 1942, requesting the Board's permission to participate in a discussion with counsel for the Banque de France and Banque Nationale de Belgique concerning a proposed agreement staying proceedings in certain litigation pending between these two banks.

"The Board understands that, while neither the State nor Treasury Departments has approved the proposed arrangement which the agreement would contemplate, the officials of neither Department see any objection to your participating along the lines indicated in your letter. Also, the position which your bank would occupy, if the agreement should be worked out, offers further reason for your participation. Accordingly, the permission is granted as requested in your letter."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Norrie
Secretary.

Approved:

W. C. C. C.
Chairman.