

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 30, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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 29, 1942, were approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your letter of June 25, 1942, the Board of Governors approves the change in the personnel classification plan of your Bank involving the creation of the position of General Assistant."

Approved unanimously.

Letter to the board of directors of the "Poughkeepsie Trust Company", Poughkeepsie, New York, stating that, subject to conditions of membership numbered 1 to 6 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 New York:

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- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$16,147 as shown in the report of examination of such bank as of April 4, 1942, made by an examiner for the Federal Reserve Bank of New York."

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

"The Board of Governors of the Federal Reserve System approves the application of the Poughkeepsie Trust Company, Poughkeepsie, New York, 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 Superintendent of Banks for the State of New York for his information.

"Standard condition numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York.

"Substantial progress in improving the bank's asset condition has evidently been made during the few months since President Knudson assumed his duties and he is apparently striving to place the affairs of the institution in an entirely satisfactory condition. However, as brought out in the report of examination for membership and the presentation memorandum, there are still some sizable problems in the bank to be worked out and trust administration is poorly organized. It must be recognized that a trial period of eight months is not sufficiently long to justify the conclusion that the new president will be able to attain the desired objectives. The application has been approved, therefore, with the understanding that

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"the Reserve Bank will follow the situation closely until ultimate solution of the problem matters is more definitely assured and the promised improvements in the organization of the trust department have been effected."

Letter to the board of directors of "The Citizen's Bank", Cardington, Ohio, 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 Cleveland.

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

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

"This refers to your letter of June 3, 1942, to Mr. Paulger which raises the question whether the Board will consider the application of First National Bank of Warsaw, Warsaw, Indiana, for permission to act as trustee, in view of the following provision of section 11(k) of the Federal Reserve Act:

'Provided, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.'

"The applicant was organized in 1937 with \$50,000 capital, which has not been increased. It applied for permission to exercise the eight specific fiduciary powers enumerated in section 11(k) of the Federal Reserve Act and, on February 23, 1938, the Board granted the applicant permission to act as executor, administrator, and guardian of estates. At that time, it was understood that the population of Warsaw did not exceed 6,000 inhabitants and, on that basis, the State law permitted the organization of a State bank in Warsaw with \$50,000 capital (and all State banks in Indiana have fiduciary powers). However, the

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"1940 census showed that the population was 6,378 and, on that basis, the State law requires \$100,000 capital for the organization of a State bank in Warsaw. Accordingly, the applicant does not have the amount of capital now required for the organization of a State bank (with fiduciary powers) in Warsaw. On the other hand, it is understood that there are a number of State banks in Indiana in towns of more than 6,000 inhabitants which have capital in amounts less than \$100,000 and which are exercising fiduciary powers, such banks having been organized when lower capital requirements were applicable.

"Section 11(k) of the Federal Reserve Act contemplates that national and State banks shall be on a basis of equality with respect to the exercising of fiduciary powers. While the Board might lawfully approve an application of a national bank having capital less than that required for the organization of State institutions with fiduciary powers where State institutions previously organized are permitted to exercise fiduciary powers with a less amount of capital, the Board has heretofore given careful consideration to this question and believes that, in order to comply with the purposes of section 11(k), national banks applying for permission to exercise fiduciary powers should be required to have the capital required, at the time, by the State law for the organization of State institutions with fiduciary powers. It is felt that equality is best preserved where, after an increase in capital requirements, State and national banks previously granted authority to exercise fiduciary powers may continue to do so without complying with the new requirements and newly organized State banks with fiduciary powers and national banks receiving permission to exercise such powers must comply with the new requirements.

"However, it is understood that First National Bank of Warsaw is acting as trustee under the will of W. Bert Siders and that the bank knew nothing of its appointment until after the death of Mr. Siders and the probate of his will. In the circumstances, the Board is willing to make an exception to its usual policy and, if an application is submitted with your favorable recommendation, the Board will grant a permit to First National Bank of Warsaw to act as trustee under the will of Mr. Siders. In communicating this information to the bank, please make it clear that an exception is being made to the Board's usual policy in the light of the unusual circumstances and that

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"if the bank should later desire to apply for additional fiduciary powers it will be necessary for it to comply with the State law capital requirements relating to the organization of State institutions with fiduciary powers."

Approved unanimously.

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

"At a recent meeting between representatives of the War Department, the Navy Department, the Maritime Commission, and the Board of Governors, consideration was given to the type and scope of reports which should be submitted pursuant to Section 4 of instructions of the War Department and Section 3 of instructions of the Navy Department and the Maritime Commission, issued pursuant to Executive Order No. 9112, in addition to those required on regular report forms or at the time of the making or guaranteeing of loans.

"Pursuant to the agreements arrived at at the meeting, it will be appreciated if you will furnish us for transmission to the War Department, the Navy Department, or the Maritime Commission, as the case may be telegraphic notification of:

1. Any demand for purchase under Section 1 of Guarantee Agreement. Loan may be identified by giving name of borrower and number assigned on form F.R. 577.
2. Any request under Section 4 of Guarantee Agreement. You will be advised promptly as to whether consent will be given by the guarantor pursuant to such a request.
3. Request for adjustment under Section 5 or 6 of Guarantee Agreement. Each computation made pursuant to such a request should be furnished promptly by mail (air mail, if necessary) so that the proper agency may check the computation to the extent deemed necessary. Such computation should in the case of prime contracts give the number of the contract and the service that executed the contract. In the case of subcontracts, to the extent possible

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"the pertinent prime contract involved should be identified as well as the service making it.

"It will also be appreciated if you will furnish prompt written notification of:

1. Any material default in the payment of principal or interest on any loan made or guaranteed on behalf of the War Department, the Navy Department, or the Maritime Commission. Such notice to include the proposed method of handling by the Reserve Bank. A monthly report should be submitted giving the status of each loan in material default at the end of the report month.
2. Any material unfavorable change of which you have received advice pursuant to the requirements of Section 8 of the Guarantee Agreement.
3. Any change in the holder of the borrower's obligation."

Approved unanimously.

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

"Referring to the Board's letter S-464 of April 23, 1942, experience in handling applications for guarantees made pursuant to Executive Order 9112 has impressed the War Department, Navy Department, Maritime Commission, and the Board's War Loans Committee with the necessity of having the applications of financing institutions for guarantees submitted on substantially uniform forms by all Federal Reserve Banks. It is important that in all cases the forms used contain the same numbered captions and that any needed information not called for by captions numbered 1. to 11. be obtained as supplemental information. It is assumed that supplemental information will be required only in unusual cases and that it will be kept at a minimum. The form enclosed with the Board's letter S-464 has been modified by the insertion of two new items as follows:

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"9.(a)(3)a. Is contract a -
Fixed price contract? _____.
Cost plus a fixed fee contract? _____.

12. The applicant for the loan herein referred to has been advised that financing institution is applying for this guarantee in the amount and subject to the terms herein indicated.

A copy of the form as revised is enclosed.

"In the case of the War Department and Maritime Commission, three copies of the application should be furnished by the financing institution, one copy to be retained by the Federal Reserve Bank and two copies to be forwarded to Washington. As a general rule, the copies forwarded to Washington should be supported by two copies of the Federal Reserve Bank's investigation and recommendations.

"In the case of Navy Department guarantees, the same procedure should be followed as indicated above, except that the Federal Reserve Bank should forward to Washington a copy of the application immediately upon receipt thereof in order to allow the Department ample time for processing without delaying final action on the guarantee. One copy of the application should be submitted later supported by two copies of the Reserve Bank's investigation and recommendations.

"In urgent cases, applications for guarantees may be handled by wire, followed by supporting information by mail.

"Section 1 of the copies of guarantee agreements forwarded to Washington should contain an adequate description of the loan, including the date, maturity, and amount of the loan, and the interest rate charged the borrower.

"All advices to financing institutions with respect to guarantee agreements should provide that the authorization to guarantee is effective for a period of 30 days only and that unless extended it will lapse if the guarantee is not executed within such period.

"In the case of Navy Department guarantees, the procedure outlined in paragraph 3 of the Board's letter of May 23, 1942, S-486, is only applicable if the contracts of the borrower are subcontracts. In the case of prime contracts the Navy Department will secure the necessary information direct thereby eliminating the necessity for any action in this regard by the Federal Reserve Banks."

Approved unanimously.

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Telegram to Mr. Swanson, Vice President of the Federal Reserve

Bank of Minneapolis, reading as follows:

"Answer to question contained in third paragraph of your letter June 25 (relating to a consolidation under Section 10(b) of Regulation W of an existing credit with a new credit) is yes. In this connection S-414 may be of interest."

Approved unanimously.

Letter to Mr. S. F. D. Meffley, Special Representative of the Recording & Statistical Corporation, Chicago, Illinois, reading as follows:

"Reference is made to your letters of June 2 and June 15 relating to the 'Official Automobile Guide' published by your corporation.

"When you were here on April 2 we received the impression that you did not particularly desire to have your company's publication included among those designated by the Board for purposes of Regulation W, and consideration of the subject by the Board was therefore suspended for the time being. However, as stated in our letter of April 10, the Board will be glad to give further consideration to this matter if you so request.

"The Board is appreciative of the comments and suggestions contained in several of your recent letters with respect to current trends in used car prices and the desirability of the Board's publishing a used car price service under its own control instead of designating existing publications, as is now done, for purposes of Regulation W. The Board is not prepared at this time, however, to give consideration to the matter of setting up a new publication for the quoting of used car prices.

"It is also noted, from your letter of June 15 and from some of your earlier letters, that you have had some misunderstandings with subscribers because of the matter of designation for purposes of Regulation W, and it would appear from your discussion that a decision by the Board to include your publication among those designated might

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"help you to solve some of your difficulties. If we are correct in assuming that you now desire that your publication be so included, please write us confirming this fact, and the Board will be glad to make a decision on the matter.

"This will also acknowledge receipt of a copy of your new Identification Edition about which you inquire in your letter of June 22, also the copy of your Trailer Coach Section that you sent to Mr. Dembitz on June 11."

Approved unanimously.

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

"This refers to your letter of May 28, 1942, and accompanying memoranda, relating to the question of whether Messrs. Harry F. Harper, N. P. Hull and F. H. Thoman may continue to serve both American State Savings Bank (a member bank) and Central Trust Company, both of Lansing, Michigan, in view of the provisions of the Clayton Act.

"The information which has been submitted to the Board is to the effect that Central Trust Company does not receive deposits within the meaning of section 3(c) of Regulation L, and that American State Savings Bank is not exercising trust powers except that it is depository (or trustee) under one agreement entered into with American Annuity Savings Association, such agreement having been entered into upon the insistence of the Securities Exchange Commission that the trust company, previously designated as the depository, does not have sufficient capital to qualify under the Investment Company Act.

"In the circumstances, the Board has decided that the relationships described in the first paragraph of this letter are not prohibited by section 8 of the Clayton Act. In this connection, reference is made to the Board's letter S-228, dated August 12, 1940 (F.R.L.S. #7764), dealing with a similar situation.

"In view of the foregoing, the Board raises no objection to the American State Savings Bank continuing to act as depository or trustee under the agreement with the American Annuity Savings Association, dated September 24, 1941, under which it is now acting, with the understanding that it will not acquire any other fiduciary business without first obtaining the permission of the Board. In taking

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"this position the Board assumes that you have satisfied yourself that the fiduciary account in question is one which the bank can administer without undue risk, and that it is fully acquainted with the duties, responsibilities, and possible liabilities connected therewith."

Approved unanimously.

Letter to Mr. Walter H. Lloyd, Rocky River, Ohio, reading as follows:

"This will acknowledge your letter of June 27 in which you advise that you have accepted a position in the Office for Agricultural War Relations in the Department of Agriculture, and that consequently you are tendering your resignation as a Class C Director of the Federal Reserve Bank of Cleveland to take effect June 30.

"I have advised the Deputy Chairman of the Federal Reserve Bank of Cleveland that the Board of Governors sees no reason why you should resign at this time. There are several cases where Directors of Federal Reserve Banks have been called into the Government service in connection with the war effort, and, with the approval of this Board, have not severed their connection with the Federal Reserve Bank. We trust, therefore, that you will see your way clear to complete your term as Director without any obligation on your part to attend meetings when it is not practicable for you to do so.

"On behalf of the Board, I wish to congratulate you on the recognition of your abilities reflected by your being called to the Government position referred to."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved: W. C. Cullen

Chairman.