

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 10, 1942, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the
Division of Research and Statistics
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Leonard, Director of the Division of
Personnel Administration
Mr. Dreibelbis, Assistant General Counsel
Mr. Stark, Assistant Director of the
Division of Research and Statistics

There were presented 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, 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 Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on July 7, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas on July 9, 1942, and by the Federal Reserve Bank

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of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum prepared by Mr. Cherry, Assistant Counsel, under date of June 23, 1942, relating to the observance by banks of legal holidays during the war period. The memorandum, which summarized the replies received from the Federal Reserve Banks to the Board's letter of April 27, 1942, had been circulated among the members of the Board and was on the docket for discussion at this meeting at the request of Mr. Szymczak.

Mr. Szymczak stated that, inasmuch as the Board had asked the banks for their comments, it was his feeling that the matter should be given further consideration by the Board to determine whether any further action was required. In the discussion which ensued Mr. Smead stated that he had been advised by the President of one of the Federal Reserve Banks that the question what action might be taken had been discussed again at the Conference of Presidents on June 23, 1942, when the conclusion was reached that there was nothing further that the Conference could do and that each Federal Reserve Bank should work the problem out on the basis of conditions existing in its district. The suggestion was made that upon receipt of the minutes of the Presidents' Conference Mr. Szymczak review the matter in the light of the Presidents' action and discuss it with Chairman Eccles, and, in the event a further communication to the Reserve Banks seemed desirable, that he have such

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a communication prepared for consideration by the Board.

This suggestion was approved unanimously.

Mr. Szymczak stated that when the decision was reached upon recommendation by the civil and military authorities in the Territory of Hawaii to replace existing Federal currency in circulation in Hawaii with currency on which the word "Hawaii" would be overprinted, decision was deferred on the question who should pay for the cost of overprinting the notes, that \$22,000,000 of Federal Reserve notes of the Federal Reserve Bank of San Francisco had been printed for this purpose, and that the Bureau of Engraving and Printing had now billed the Board for the regular cost of printing the notes at the rate of \$91.25 per thousand sheets plus \$14.25 to cover the cost of overprinting, or a total of \$105.50 per thousand sheets. Mr. Szymczak said that he had discussed the matter yesterday with Mr. Bell, Under Secretary of the Treasury, who suggested that the Federal Reserve Bank of San Francisco pay the cost of printing and the Treasury would pay the cost of shipping the notes to the Federal Reserve Bank of San Francisco. It was pointed out that the Federal Reserve Banks ordinarily pay the cost of shipping and that in this case the cost of shipping the notes was more than the cost of overprinting. Mr. Szymczak added that he also discussed this suggestion with Mr. Ransom and it was felt that the arrangement should be agreed to and that it should apply not only to the \$22,000,000 of Federal Reserve notes already printed but to the additional \$24,000,000 of Federal Reserve notes which it had been found

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necessary to print to take care of increased currency needs in Hawaii.

The arrangement outlined by Mr. Szymczak was approved unanimously.

At this point Mr. Smead withdrew from the meeting.

There was then presented a memorandum dated July 7, 1942, from Mr. Goldenweiser, recommending that David M. Wright be appointed as an associate economist in the Division of Research and Statistics for a period of one year with salary at the rate of \$4,600 per annum, effective as of the date upon which he enters upon the performance of his duties. Mr. Wright had been examined by the Board's examining physician who reported that in 1933-34 Mr. Wright suffered a spontaneous collapse of the right and left lungs six months apart, the cause of which was not known, that all examinations for tuberculosis were negative, that in 1939 he developed deafness in the left ear, and that the present findings were deafness of the left ear, curvature of the spine, arthritis of the spine, and circulatory insufficiency characterized by inconstant heart murmur and rapid pulse, and that any one of these conditions would disqualify him for ordinary life insurance at the normal rate. Mr. Goldenweiser's memorandum stated that under ordinary circumstances it would be recommended that Mr. Wright be given a permanent appointment but in view of his medical history it was suggested that the appointment be made for a period of one year at the end of which time the situation would be reviewed, and that it be understood that under the recent amendment to the rules and regulations of the Retirement System of the Federal Reserve Banks Mr. Wright would be

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required to execute a waiver of death and disability benefits for a period of ten years.

Mr. McKee stated that even though the medical tests for tuberculosis were negative he wished to raise the question as to the responsibility of the Board in the event Mr. Wright should develop tuberculosis or communicate the disease to some other member of the Board's staff.

During the discussion of this point Mr. Leonard stated that he had discussed the matter with Dr. Barr, the Board's examining physician, who stated that he had personally examined Mr. Wright's chest and had found no evidences of tuberculosis, that tests which had been made by the medical staff of the University of Virginia, where Mr. Wright was serving as an Assistant Professor of Economics, had been negative, and that he (Dr. Barr) had complete confidence in the staff which conducted the tests.

At the conclusion of the discussion, it was agreed unanimously that a written report of the tests made at the University of Virginia should be obtained and that the matter should be considered further in the light of that report.

At this point Mr. Leonard left the meeting.

Mr. Ransom reported for the information of the other members of the Board that he had now been informed that the Office of Price Administration had abandoned the proposal for the establishment of penalty interest rates on defaulted charge accounts as well as the suggestion that local credit bureaus blacklist individuals whose accounts are in default.

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Mr. Goldenweiser stated that at a recent meeting at the Treasury for the purpose of giving further consideration to plans for the establishment after the war of an international stabilization fund and an international bank, which was attended by Secretary of the Treasury Morgenthau, Secretary of Commerce Jones, Chairman Eccles, Dean Acheson, Assistant Secretary of State, Herbert Feis, Adviser to the State Department on International Economic Affairs, and others, Mr. White, Director of the Division of Monetary Research of the Treasury, presented a report outlining his understanding of what a subcommittee composed of technical staff members of the agencies involved had agreed to. The report, among other things, stated that the committee had agreed that there was a need for the proposed bank and stabilization fund, and that it would be desirable to have an international conference of technicians to discuss the matter. Mr. Goldenweiser also said that the State Department representatives expressed the opinion that the matter should be taken up individually with some of the leading countries instead of calling a conference, and that, upon a reminder from Mr. Goldenweiser, Mr. White recalled that Mr. Goldenweiser's position on this point was as outlined by him at the meeting of the Board of Governors on June 9, 1942. The further development at the meeting, Mr. Goldenweiser stated, was that Secretary Morgenthau said that he would not be willing to give further time to the matter if the proposed bank and stabilization fund were not desired by the State Department, and it was agreed that Messrs. Acheson and White should discuss the matter

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with Secretary of State Hull for the purpose of ascertaining his views.

Mr. McKee raised for discussion the question whether Regulation D, Reserves of Member Banks, should be amended to conform to section 19 of the Federal Reserve Act as amended by the act signed by the President on July 7, 1942. In the discussion which ensued, Mr. Wyatt referred to certain provisions of the Regulation which might be changed to bring it into conformity with the purpose of the amendment to the law as well as an additional change in Section 2(c) which had been proposed to bring that section into technical agreement with Regulation J, Check Clearing and Collection.

It was agreed unanimously that the Legal Division should prepare for consideration by the Board a revised draft of the regulation to include all amendments that it was felt should be made at this time in accordance with Mr. Wyatt's suggestions.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Leonard, Dreibelbis, and Stark 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 July 9, 1942, were approved unanimously.

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

"Board extends to August 14, 1942, the time within which Ravalli County Bank, Hamilton, Montana, may complete its membership."

Approved unanimously.

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

"Reference is made to your letter of June 15, 1942, transmitting the formal request of First Trust and Savings Bank of Pasadena for approval of the establishment of branches at Temple City and Alhambra, California.

"When this bank first wrote you in January 1942 concerning its plans for the establishment of branches at these places, you forwarded a copy of the letter to the Board for its information and consideration. After careful consideration, the Board reached the conclusion that it should not approve the establishment of the proposed branches. In its letter dated February 14, 1942, the Board advised Transamerica Corporation of the action taken and stated that its position in the matter was in accord with the policy upon which there is unanimous agreement by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation that the Federal bank supervisory agencies should, under existing circumstances, decline permission for the acquisition directly or indirectly of any additional banking offices or any substantial interest therein by Transamerica Corporation, Bank of America N.T. & S.A., or any other unit of the Transamerica group. The Board requested you to advise First Trust and Savings Bank of Pasadena before it took any further steps to consummate its plans. This you did in your letter to the bank dated February 20, 1942. Thereafter the First Trust and Savings Bank of Pasadena apparently continued its plans and on February 28, 1942, entered into a contract to assume deposits and take over assets of the Temple City National Bank, with the view to operating a branch at that location.

"The data submitted in First Trust and Savings Bank's formal request, dated June 10, 1942, for the Board's approval of the establishment of a branch at Temple City and a branch at Alhambra have been fully considered, and while Mr. William J. Murphy, Chief Deputy Superintendent of Banks of the State of California, was in Washington on other business occasion was had to confer with him and Mr. Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, with respect to this situation. The Board does not feel that the facts submitted and the circumstances in this case justify any changes in its policy as outlined in the previous correspondence above referred

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"to. Mr. Crowley has expressed his complete concurrence.

"Please advise First Trust and Savings Bank of Pasadena and Transamerica Corporation in accordance with the views expressed above that the Board does not feel warranted on the information in its possession in granting the application of the First Trust and Savings Bank of Pasadena for branches at Alhambra and Temple City."

Approved unanimously, with the understanding that a copy of the letter would also be sent to Mr. Crowley.

Letter to Mr. Kennel, Assistant Counsel at the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of June 30, enclosing two letters from the law firm of Singer, Stoneman & Kurland. The correspondence raises several questions, which you have answered, and also raises the question whether a store which sells a charge account of one of its customers must nevertheless regard the account of that customer as being in default under section 5(c) of Regulation W if the assigned account is not paid within the time prescribed by the Regulation.

"As you know, this question has been under consideration for some days, and it has now been answered by the Board in the affirmative, the reasoning being that the liability of the customer to the store continues in the absence of a new agreement of all the parties."

Approved unanimously.

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

"In connection with loans guaranteed under Executive Order No. 9112, there is enclosed herewith a copy of a memorandum, with a copy of its enclosure, received by the Board from the Chief of the Miscellaneous Branch of the War Department asking that a special condition be inserted in the guarantee agreement in any case in which the agreement between the borrower and the financing institution provides that a rate of interest higher than the rate payable before maturity of the loan shall be paid by the borrower after maturity or as interest on overdue interest or otherwise.

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"It will be observed that the last sentence of paragraph 4 of the enclosed memorandum states that no interest higher than the specified loan rate should be permitted upon overdue principal, interest or otherwise, unless approved by the guarantor.

"Your attention is called to the fact that the War Department in the enclosed memorandum, the Navy Department in the letter enclosed with our letter of July 7th, and the Maritime Commission in the letter enclosed with our letter of July 9 have each indicated agreement with the Board of Governors that in no event should any interest rate payable by the borrower in connection with a guaranteed loan, whether interest after maturity, interest on overdue interest, or otherwise, exceed the maximum rate prescribed for guaranteed loans, namely, 5 per cent per annum."

Approved unanimously.

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

"Retel July 8, Federal Reserve Bank should assign own series of numbers to War Department and Maritime Commission guarantees and use same numbers on reports on Forms F.R. 577 and 577a, as suggested in Board's letter S-526 of July 3."

Approved unanimously.

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

"Recently there was conveyed to us, informally, by a member of the staff of the Office of Price Administration, certain information regarding the problem of enforcement of Regulation W.

"Generally, it is understood to be the practice of many credit jewelers in the Chicago area to deliver merchandise with less than the required down payment, no official record of the sale being made until there has been accumulated through small payments an amount equal to the required minimum down payment. Another evasive practice related was the opening of an account with no down payment and the subsequent conversion to a monthly payment basis upon the original account becoming delinquent.

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"Specific instances of the foregoing practices are unknown. However, there would seem to be sound foundation for the belief that they are being followed by certain merchants, and it seems desirable that such information be called to your attention."

Approved unanimously.

Thereupon the meeting adjourned.

Roberta Morier
Secretary.

Approved:

Donald A. Hanson
Vice Chairman.