A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 14, 1942, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
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 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 July 13, 1942, were approved unanimously.

Memorandum dated July 13, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending, with the concurrence of Mr. Cravens, Administrator for the War Loans Committee, that, effective as of August 16, 1942, Marion E. Wright be transferred from the Office of the Administrator for the War Loans Committee to the Division of Examinations and appointed as an Assistant Federal Reserve Examiner, with salary at the rate of $1,800 per annum.

By unanimous vote, Marion E. Wright was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations

operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., and with salary at the rate of $1,800 per annum, effective as of August 16, 1942.

Memorandum dated July 13, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Miss Lynda Nickl as a clerk in that Division, to become effective as of the close of business on July 12, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"Referring to your letter of July 9, 1942, the Board of Governors approves, effective as of that date, the payment of a salary to I. J. Petersen, Assistant Cashier, at the rate of $5,000 per annum for the period ending March 31, 1943."

Approved unanimously.

Letter to the board of directors of "The Union Bank", Loogootee, Indiana, 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 St. Louis.

Approved unanimously, together with a letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Union Bank', Loogootee, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana 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 requiring elimination of estimated losses has not been prescribed. It has been noted, however, that the management intends to charge off the amount classified and it is assumed that this will be done.

"It is assumed also that you will follow the matter of the bank's reducing to within statutory limits the excess balance carried with a nonmember bank."

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

"In accordance with the recommendation contained in your telegram of July 14, 1942, and as a temporary measure for the duration of the present emergency, the Board of Governors authorizes the Guaranty Trust Company of New York to establish a branch in the London, England area at the place at which the office of the American Finance Office is operating. This approval is granted with the understanding that the New York State Banking Department has also given its approval thereto; that the action of the Trust Company in making the application will be ratified by the directors of the Trust Company; and that the location of the branch will be reported to the Board when it is established. Please advise Guaranty Trust Company accordingly and inform the Board as to date of establishment of the branch."

Approved unanimously.

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

"This refers to your letter of June 29 regarding the question whether Mr. Carl Egner may continue to serve as a partner of Clark, Dodge & Co., New York, and as a director of West Hudson National Bank of Harrison, Harrison, New Jersey. You refer to the fact that in a letter to you dated June 12, 1936, the Board concurred in your opinion that on the basis of the facts then existing, Clark, Dodge & Co. should not be regarded as 'primarily engaged' in the business described in Section 32, but that in your letter replying to the inquiry regarding Mr. Egner's eligibility, you pointed out that if there should be a material change in the character or relative volume of the various types of business transacted by the firm, a further question regarding the applicability of Section 32 might be presented.

"You state that you have now been advised that during the intervening period, the proportion of the business of the kind described in Section 32 transacted by the firm is substantially larger than the proportion shown in 1936, and that it produced over 28 per cent of the aggregate gross income of the firm for the 6-year period ending April 1, 1942. In the circumstances, you informed Mr. Egner that the information submitted clearly indicated that Clark, Dodge & Co. presently should be regarded as 'primarily engaged' in the type of business described in Section 32, and that therefore he may not lawfully continue as a director of a national bank while he continues his association with the firm.

"As you know, the Board has considered a number of cases of this kind where the question was whether the type of business described in Section 32 was a sufficiently important part of the business of the firm to be regarded as one of its primary activities within the meaning of the statute. The facts shown in 1936 in connection with Mr. Egner's status at that time, presented a rather close question, but, as stated above, the Board saw no reason to differ with the conclusion reached by your bank. However, the Board agrees with you that on the basis of the information which has now been submitted regarding the nature of the business transacted by the firm during the 6-year period ending April 1, 1942, it is clear that the firm should now

"be regarded as 'primarily engaged' in the type of business described in Section 32, and that Mr. Egner may therefore not lawfully continue as a director of the bank while he continues his association with the firm."

Approved unanimously.

Memorandum dated July 10, 1942, prepared by Mr. Wyatt, General Counsel, in accordance with the action taken at the meeting of the Board on that day, submitting proposed amendments to Regulation D, Reserves of Member Banks. The memorandum stated that, inasmuch as a change in reserve requirements was reflected only in the supplement to the regulation, it was not necessary to delay action on the proposed amendments pending a decision on whether such a change should be made, and suggested that if the amendments were adopted the entire regulation be reprinted and distributed to all member banks.

By unanimous vote, the following amendments to Regulation D were adopted, effective immediately, with the understanding that the Federal Reserve Banks would be advised by wire that the amended regulation was being reprinted and that sufficient copies would be sent to each Reserve Bank to meet its needs and to send a copy to each member bank:

Section 2(a) is amended by striking from the last paragraph thereof the words "by the Banking Act of 1935".

Section 2(c) is amended by striking out the word "checks" and substituting in lieu thereof the word "items" and by changing the period at the end of the section to a colon and adding the following:

"Provided, however, That the Federal Reserve Bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given in its reserve account for any

item for which the Federal Reserve Bank has not received payment in actually and finally collected funds.

Section 3(c) is amended by striking out the words "and the personal liability of the directors permitting violations of the laws".

Section 4 is hereby repealed.

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

"This refers to your letter of July 6, 1942, relating to an inquiry from First National Trust and Savings Bank of Santa Barbara, Santa Barbara, California, with respect to whether, in view of the provisions of section 12 of Regulation F relating to custody of trust investments and securities, the bank may deposit securities which it holds in trust accounts with some inland bank for safekeeping during the present emergency.

"It is the Board's view that such action is permissible, provided that the receipts issued by the depositary identify the securities as trust assets of the depositing bank and the securities are to be released by the depositary only upon the order of two or more officers or employees of the depositing bank designated by the board of directors of that bank to have custody of trust investments and securities."

Approved unanimously.

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

"The Board has recently considered several cases that relate to the differences between (1) 'instalment sale' (which, by definition, relates only to listed articles), (2) instalment sale of an unlisted article or a service, and (3) 'instalment loan'.

"When listed articles involved.-Sometimes the seller of a listed article does not take a note payable to himself, but instead, according to arrangements with a financial institution, takes a note payable to the financial institution. Such a transaction involving a listed article is an instalment sale whether the note is made payable to the seller or to a financial institution, since section 2(e)

"specifically states that, so long as the extension of credit is made 'by any seller' of any listed article and 'arises out of the sale of such listed article', the definition applies whether the seller provides for the credit 'as principal, agent or broker'. Such a transaction does not constitute an instalment loan and hence does not require a Statement of Borrower, since under section 2(h) an instalment loan includes only specified transactions 'other than an instalment sale'.

"When unlisted article involved.- When such transactions involve an unlisted article or a service (including an insurance policy) instead of a listed article, the rule is somewhat different. If the seller takes a note payable to himself the transaction is exempt from the regulation as a sale of an unlisted article or a service, and the note may be purchased by a bank or other financial institution without regard to the requirements of the regulation. On the other hand, when the seller takes a note payable to a financial institution instead of to himself, the transaction (if for $1,500 or less) is subject to the regulation as an instalment loan and a Statement of the Borrower is required. The controlling factor in such cases involving an unlisted article or a service is whether the note is made payable to the seller, in which case the transaction is exempt, or is made payable to a financial institution, in which case the transaction is subject to the regulation as an instalment loan. Note, however, that the word 'service' as used herein, does not include any service connected with the acquisition of a listed article.

"The differences between the status of transactions involving listed articles and those involving unlisted articles and services flows from the fact that the definition of instalment sale in section 2(e) is by its terms specifically confined to transactions involving listed articles. When an unlisted article or a service is involved and the note is made payable to a financial institution instead of to the seller, the transaction on its face is a loan by the financial institution and (if for $1,500 or less) is subject to the regulation as an instalment loan.

"Statement of certain other interpretations.- This covers the questions considered in W-16, 119 and 124 and takes the place of those interpretations."

Approved unanimously.

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

"Your letter June 18 regarding proposed agreement between oil company and credit card holders designed to permit sale of listed articles even though accounts of holders may be in default under Regulation W. Agreement would provide that holder would pay account, should it be in default, upon terms complying with section 5(d)(2), or in cash if demanded by company.

"Section 5 does not contemplate that such an agreement shall be used since section 5(d)(2) specifies an 'agreement in good faith to pay the amount in default' and therefore does not contemplate an agreement which may prove to be a nullity, because it does not agree to pay anything. Also, cash-payment option of agreement conflicts with section 5(d)(1) which clearly contemplates that if default is to be cured by payment in cash, such payment shall be made before the credit is extended, not after."

Approved unanimously.

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

"Re Board's telegram April 2, 1942, and subsequent telegrams regarding Federal tax on dividends on Federal Reserve Bank stock, one of Federal Reserve Banks has raised question whether in making adjustments in a member bank's holdings of Federal Reserve Bank stock the Federal Reserve Bank should continue its previous practice of calling in outstanding certificate and issuing a new certificate covering adjusted holdings. In view of conclusion reached in Treasury decision dated July 6, 1942, Board's telegram of July 8 contemplated that Federal Reserve Banks will continue to follow procedure outlined in section 11 of Board's Regulation I with respect to cancellation of old and issuance of new certificates. Board does not contemplate any amendment to Regulation I."

Approved unanimously.

Letter to Mr. Ben R. Draper, Secretary of the Montana Bankers Association, Helena, Montana, reading as follows:

"Reference is made to your letter of June 26, 1942, in which is quoted a resolution adopted by the Montana Bankers Association requesting the Board of Governors to make available to Montana member banks facilities of the Helena Branch of the Federal Reserve Bank of Minneapolis for the safekeeping and redemption of War Savings Bonds.

"Since War Savings Bond operations are handled by the Federal Reserve Banks in their capacity as Fiscal Agents of the United States, their activities in this connection are necessarily governed by instructions of the Treasury Department. Accordingly, a copy of your letter is being sent to that Department. A copy of your letter is also being sent to Mr. J. N. Peyton, President, Federal Reserve Bank of Minneapolis."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Chairman.