

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 15, 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 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 July 14, 1942, were approved unanimously.

Memorandum dated July 14, 1942, from Mr. Morrill, submitting the resignation of Miss Dorothy L. Lowry as a telephone operator in the Secretary's Office, to become effective as of the close of business on August 2, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the changes in the Personnel Classification Plan of the Little Rock Branch, as set forth in the revised pages 18, 18-AA, and 18-A, of Form A, submitted with your letter of July 9, 1942."

Approved unanimously.

Letter to "The First National Bank of Newark", Newark, Arkansas, reading as follows:

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"This refers to the resolution adopted on May 5, 1942, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"Enclosed herewith is a copy of a letter of July 7, 1942, from Mr. C. B. Upham, Deputy Comptroller of the Currency, quoting the comments contained in the report of examination of The Second National Bank of Ravenna, Ravenna, Ohio, as of June 15, 1942, which relate to the bank's application to surrender its right to exercise fiduciary powers.

"The Board will take no further action concerning the bank's application until the litigation referred to in the report is terminated. You will note from the enclosed copy of our letter of this date to the Comptroller of the Currency that we are requesting him to have his examiners inquire concerning the status of the litigation in connection with regular examinations of the bank and that he advise us when the litigation has been terminated. Please advise the bank accordingly."

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Approved unanimously.

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

"This refers to your letter of July 3, 1942, and previous correspondence, relating to the deposit of trust funds awaiting investment or distribution by State member banks in Wisconsin in their own commercial and savings departments and to compliance with standard condition of membership numbered 6 which reads as follows:

'If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.'

"It appears that the Wisconsin State Banking Department construes the State law to permit State banks in Wisconsin to deposit trust funds in their own commercial and savings departments but that such banks cannot legally pledge securities to secure funds so deposited. As you know, it is the Board's view that in such circumstances a bank subject to the above-quoted condition of membership can comply therewith only by refraining from depositing trust funds awaiting investment or distribution in its own commercial and savings departments. In your letter of March 9, 1942, you recommended that the Board waive compliance with the condition of membership by Wisconsin banks in view of the preference accorded such trust funds upon the liquidation of a bank in that State. However, it is the Board's established policy to waive compliance only in those States where, upon liquidation of a bank, the trust funds are protected by a statutory preference in all assets of the bank over claims of its general creditors. The Board does not consider such a waiver of compliance to be warranted in Wisconsin, where there is no statutory preference and apparently there is only the usual common law preference which necessitates the tracing of the trust funds into assets of the liquidating bank. In connection with the foregoing, see the Board's letter X-9143, dated March 8, 1935 (F.R.L.S. #3722).

"The determination as to how best to bring this matter to the attention of the banks affected and obtain the necessary corrections is left to your judgment. It is realized that in the case of some banks practical objections may be raised to retaining trust funds in cash in

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"their trust departments, or to depositing them in correspondent or other insured banks or the Federal Reserve Bank. In some States in which similar situations have arisen, the banks have solved the problem by obtaining legislation authorizing them to pledge securities in compliance with the condition of membership and, in view of this fact, the Board will not insist upon changes in the existing practices of Wisconsin banks awaiting the results of any efforts made to obtain such legislation at the next session of the State legislature.

"A copy of this letter is being furnished to the Federal Reserve Bank of Minneapolis and it is assumed that you will consult with that bank concerning this matter in order to avoid any inconsistency in the manner in which it is handled by the two Reserve Banks."

Approved unanimously.

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

"Enclosed herewith is a copy of a letter dated July 6, 1942, from Mr. Gustave Mueller, Assistant Trust Officer, The First National Trust and Savings Bank of San Diego, San Diego, California, relating to the basis to be used in valuing Series G United States Savings Bonds held in a common trust fund operated in accordance with section 17(c) of Regulation F.

"While the use of either the redemption value or the maturity value of such bonds has certain objections, the Board has expressed the view that the redemption value is the most appropriate basis since it is the amount currently realizable (see 1942 Federal Reserve Bulletin 7; F.R. L.S. #4101.2). However, Regulation F does not undertake to prescribe any precise method of valuation and merely requires that the written plan for the operation of a common trust fund shall include, among other things, detailed provisions relating to the basis and method of valuing assets in the fund. Accordingly, even though the Board believes that redemption value is the most appropriate basis, it is permissible to provide in the plan for operation of a common trust fund that Series G United States Savings Bonds shall be valued on the basis of maturity value and, where such provision has been made, the bonds should be valued on that basis unless the plan is amended. It is suggested, however, that the basis of valuation be shown in audit reports and any other financial statements of the common trust fund.

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"We shall appreciate your advising Mr. Mueller in accordance herewith. We have not advised him of this reference."

Approved unanimously.

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

"Referring our July 1 telegram, it is suggested that, until further advice is received, vouchers for reimbursement of War Loan expenses be forwarded to agencies concerned through Board's Division of Bank Operations. In determining whether portion of salaries of senior officers may be included in reimbursable expense vouchers, entire War Loan operations account War Department, Navy Department and Maritime Commission may be considered as one unit and charges may be made if a senior officer (other than president or first vice president) devotes as much as 20 per cent of his time to such War Loan operations as a whole. Charges may also be included for any portion of the time of the Bank's general counsel or of other officers and employees in the Legal Department for time devoted to War Loan operations."

Approved unanimously.

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

"The following is an excerpt from a letter recently written by a member of the Board to a Registrant regarding the enforcement of Regulation W. It is believed that this letter may be of some assistance to your bank in dealing with similar problems:

'In referring to the spirit and intent of the Regulation I assume that both of us have in mind its broad objectives as they are set out in the President's Executive Order and as they have been expounded from time to time in various public statements and press releases. The last such statement is contained in the May issue of the Federal Reserve Bulletin, a copy of which is enclosed. I also enclose copy of a talk that I made only a few days ago to a convention of the National Retail Credit Association in New Orleans.

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"I thought that you might be interested in my own ideas, based on many months study of the Regulation and of the demands present circumstances dictate to vendors, lenders, and consumers, as set out on page 8.

'Those of us working on Regulation W for the Board of Governors recognize that the accomplishments of the Regulation are, in no small measure, attributable to the cooperation that the Board has received generally from Registrants and to an eagerness of the great majority of them to do as much of the job as possible by self-imposed requirements. Along these lines banks are being urged by the Federal supervisory authorities to exert pressure to hasten the repayment of presently outstanding loans to individuals for nonproductive purposes. We expect full cooperation of the banks of this country with this program. Work is also being done in a preliminary way with the life insurance companies looking to a program that will reduce policy loans where possible. Innumerable groups of vendors and lenders and trade associations representing them have shown a commendable willingness to cooperate with us in every phase of the undertaking to carry out this part of the President's program.

'As a result the Board has to date been able to avoid imposing some controls authorized by the Executive Order which otherwise might have been necessary. This is true with respect to the question of public solicitation despite the occurrence of isolated and sporadic practices which, if they should become general or should be persisted in by an uninformed minority, unwilling to cooperate, might compel action. So far, however, the necessity has not arisen, and we hope, of course, that it will not.

'This, I trust, will explain our interest in the subject of advertisements. At the same time, I am sure that upon consideration you will understand the Board declining to pass upon the specific advertising matter which you submit, both because the Regulation does not now prescribe rules upon the subject and also because, even if it did, we are not equipped

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"to pass upon hypothetical cases or to offer to any Registrant judgment in advance as to the propriety of his or particularly a competitor's advertising. We have had innumerable requests that we express approval or disapproval of advertising done by your stores. We prefer to handle this matter direct with you, rather than by correspondence with your competitors. Speaking generally, I hope that Registrants will keep their advertising consistent with the Government's program as announced by the President in his Special Message to Congress on April 27 and radio address on the following day.

'Aside from Regulation W and in connection with your comment that such an advertisement would assist in stimulating the sale of Savings Bonds or Stamps, I enclose a copy of Treasury Department News Release #167 of May 12, 1942, dealing in part with the use of bonds or stamps as premiums, discounts or gifts in connection with the retail sale of merchandise.

'Referring to your question of whether opening a charge department would violate the intent of Regulation W, the question itself indicates your awareness of the fact that the letter of the Regulation does not prohibit such action. Nor do I know of any reasons why bona fide charge accounts should be singled out and prohibited. It goes without saying, however, that their use as a means to evade or avoid the Regulation is another matter. I can visualize circumstances that would raise a question as to a violation not only of the spirit but as well of the letter of the Regulation.'

Approved unanimously.

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

"Receipt is acknowledged of your letter of July 2 enclosing an opinion of your counsel regarding sections 5 and 11(a) of Regulation W. The question is whether a

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"member of a family may open a charge account with a seller if another member of the family has a charge account with the same seller which is in default.

"It is difficult to give a definite answer to this question because there are so many possible combinations of facts to which it might apply. The mere fact that the account of one member of the family is in default would not, of itself, make it impossible under the Regulation for another member of the family to open an account with the same store.

"On the other hand, if the store knew that it could expect payment from only one member of the family, and permitted the family to open an account in the name of another member each time the account of the preceding member went into default, there would obviously be an arrangement designed to permit payment on conditions inconsistent with the requirements of the Regulation in violation of section 11(a)."

Approved unanimously.

Letter to Mr. Gilmore, Assistant Cashier of the Federal Reserve Bank of St. Louis, reading as follows:

"This is in reply to your letter of July 11 inquiring as to the form of Registration Statement that may ultimately be required for the registration of those persons required to register under Regulation W solely because they make charge sales or single-payment loans.

"The Board has not yet given consideration to the question of the form on which the registration of such persons may ultimately be required, although it seems likely that the registration of persons who make charge sales, when and if the Board requires such registration, will be on a form somewhat shorter than the present Form F.R. 563-a. Consequently, we would not recommend including in your circular to such persons a suggestion that they might register at this time if they wish to do so."

Approved unanimously.

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

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"This will acknowledge your letter of July 11 enclosing a letter from J. L. Brandeis & Sons, Omaha, requesting that section 5(f) of Regulation be broadened to cover 'charge-sends'. It is noted that you do not support the request of J. L. Brandeis & Sons.

"As indicated in the Board's letter of June 27 it has been tentatively decided that no change should be made in the regulation in this respect at the present time, but the matter will continue under study here."

Approved unanimously.

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

"The Board has included Official Automobile Guide, Price Edition, published by the Recording and Statistical Corporation, among the automobile appraisal guides designated for use for purposes of Regulation W. The territory for which this publication is designated consists of the entire United States except the states of Arizona, California, Idaho, Nevada, Oregon, Utah and Washington.

"This designation is to apply, during the months of July and August, to the June 1942 edition of Official Automobile Guide and, during the remainder of the year 1942, to subsequent quarterly editions, but is subject to revocation by the Board at any time.

"It is assumed that the issues published during the remainder of the year 1942 will be similar in form to the June 1942 issue and that the basis on which the retail prices quoted are determined will be generally similar to the basis of the retail prices quoted in the June 1942 issue. If your organization decides to make any substantial change in form or basis, or to change your schedule of publication dates, it is suggested that you notify the Board in advance.

"The Board's designations of all appraisal guides are being limited to their quotations for used cars of 1935 and later models. The maximum credit value of a car of 1934 or earlier model -- in the absence of designated 'appraisal guide values' for such cars -- will be 66-2/3 per cent of the bona fide cash purchase price, and there will be no objection to your pointing out these facts in connection with any values that you quote for 1934 and earlier models.

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"It is requested that your organization refrain from publishing any statement (in the Official Automobile Guide or elsewhere) to the effect that such publication is among those designated by the Board for the purposes of Regulation W unless such statement is accompanied by a statement of equal prominence to the effect that such designation does not indicate any finding by the Board as to the accuracy or correctness of the prices shown or of the methods of compilation. It is also requested that any such statement as to this designation appear inside of the publication rather than on an outside cover. It is assumed, of course, that you will avoid making any statement (in the Official Automobile Guide or in any advertisement, circular, letter, or other material) that would improperly indicate that your prices or methods of compilation have been found to be correct by the Board or by the United States Government or by any other agency thereof, and that you will use your best efforts to prevent any such misrepresentation by others.

"It is also suggested that your publication, if it includes any notice that it is among those designated for purposes of Regulation W, include also a statement indicating the territory for which it is designated and the dates within which the particular issue is in effect.

"In the event that you desire that any change be made in the terms of designation or in the requests outlined above, the Board will be glad to give consideration to any suggestions or proposals that you may wish to submit.

"The Board has noted the desire expressed in your letters of July 3 and July 6 that designation of the 'Official Automobile Guide' be made on the basis of national distribution, and you will observe that the territory for which this publication is designated includes the entire United States except seven extreme western states. Since the market for used automobiles in those states has been different from markets in other parts of the country, the Board has not designated any publications for those states except those prepared especially for that territory. The Board sees no reason, of course, why the non-inclusion of your guide among those designated for purposes of Regulation W in that territory should prevent any insurance companies who may have been using this guide there for underwriting and adjustment purposes from continuing to do so."

Approved unanimously, together with a letter in the following form to the Presidents of all the Federal Reserve Banks:

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"Enclosed for your information is a copy of a revised list showing in detail the automobile appraisal guides which are now designated by the Board for purposes of section 13(c) of Regulation W (formerly Part 3(b) of the Supplement to Regulation W).

"This list differs in the following respects from the list that was sent you on March 21:

"1. This list incorporates the designation of the N.A.D.A. Official Used Car Guide, District L Edition, for Nevada as to which you were notified by telegram on March 23, and the designation of the Blue Book National Used Car Market Report -- Executive Edition, for certain additional territory as to which you were notified by letter on April 9.

"2. The Official Blue Book New and Used Car Guide -- B Edition, the Blue Book National Used Car Market Report -- Executive Edition - 'retail sales values' for Zone No. 3, and the Red Book National Used Car Market Report, have been designated for 10 counties in Southern Michigan which the Board had originally excluded from the territory for which these publications were designated.

"3. The Market Record has discontinued publication.

"4. The 'Official Guide' published by Pacific Auto Guide, Inc., has been consolidated with the Kelley Blue Book, published by Kelley Kar Company.

"5. The 'Official Automobile Guide', Price Edition, published by Recording and Statistical Corporation, has been included among the designated publications, and has been designated for the territory indicated on the enclosed list.

"It is not believed necessary for the Reserve Banks to notify Registrants of these changes, except in answer to inquiries."

Letter to Mr. William R. White, Chairman of the Executive Committee of the National Association of Supervisors of State Banks, New York, New York, reading as follows:

"The Board has recently adopted a comprehensive program for the enforcement of Regulation W which it issued pursuant to the authority contained in the Executive Order issued by the President on August 9, 1941 (Federal Register, August 13, 1941, page 4035). For your information in this connection, there is enclosed a copy of an outline of the enforcement program which the Board has forwarded to the Presidents of all the Federal Reserve Banks. In view of the interest of the Department of Justice in matters of this kind, this program has been cleared by the Board with that Department.

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"The Board has also been advised by the Comptroller of the Currency and the Federal Deposit Insurance Corporation that they will cooperate with the Board in the enforcement of Regulation W in so far as national banks, nonmember insured banks, and Credit Unions subject to their supervision are concerned. The manner in which these agencies will cooperate with the Board is along the same lines as those which it is desired that the State bank supervisors shall follow, which are hereafter described.

"To this end and in order to avoid duplication of actions taken to discover violations of Regulation W, the Board would like to have the cooperation of the various State bank supervisors with respect to any violations which may occur in noninsured banks and in other institutions which may be subject to supervision and periodic examination by State bank supervisors. Specifically, we would like to have the cooperation of the various State bank supervisors along the following lines:

1. Take such steps as they deem appropriate in the examination of such institutions to determine whether violations of Regulation W exist;
2. If violations are discovered which in the opinion of representatives of a State bank supervisor are inadvertent, take steps to obtain correction of the violations along the lines which it is contemplated will be taken by the Federal Reserve Banks in similar circumstances under Section IIA of the enclosed outline of enforcement program; and
3. If violations are discovered which in the opinion of representatives of a State bank supervisor are apparently willful and steps should be taken to determine whether penalties should be prescribed, report the facts in the case to the Federal Reserve Bank of the district in which the apparently willful violation occurs.

"In carrying out the above program, we would like to have representatives of the various State bank supervisors and appropriate representatives at the various Federal Reserve Banks maintain close informal contacts in order that the Federal Reserve Bank representatives may be of all possible assistance to the State bank supervisors in their cooperation with us in this matter. In this connection, it is contemplated that appropriate Federal Reserve Banks will contact the various State bank supervisors to obtain

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"information as to what institutions if any, other than banking institutions, are subject to supervision and periodic examination by such supervisors.

"We shall appreciate it if the National Association of Supervisors of State Banks, through an appropriate committee or officer, will undertake to bring this matter to the attention of the various supervisors and obtain their cooperation along the lines outlined herein."

Approved unanimously.

Letter to Mr. Coffey, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Minneapolis, made as of May 13, 1942, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also furnished President Peyton.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

It was agreed unanimously that Mr. Szymczak, in view of his other assignments which include currency handled by the Federal Reserve Banks, should serve as the Board's representative on the System Committee on Currency Hoarding in place of Mr. Evans.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. Steeles

Chairman.