

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 4, 1942, at 11:00 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

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 August 3, 1942, were approved unanimously.

Memorandum dated August 1, 1942, from Mr. Morrill, recommending that John Scheuring be appointed as a guard in the Secretary's Office on a temporary basis for an indefinite period, with salary at the rate of \$1,500 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 3, 1942, from Mr. Morrill, submitting the resignation of M. Peter Sarfaty as clerk to the Building Manager, Office of the Secretary, to become effective as of the close of business on September 3, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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Letter to Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"This is in reply to your letter of July 29 in which you refer to the Board's letter of July 17, 1941 (S-275), and advise of your wish to continue in your employ on a temporary basis as supervisor in the Auditing Department, Mr. William J. Buckner, who will retire on July 31, 1942.

"In view of the circumstances referred to in your letter, the Board will interpose no objection at this time to the employment of Mr. Buckner on a temporary basis with compensation at the rate of \$2,500 per annum. It is assumed that the employment of Mr. Buckner in these circumstances will be terminated when the special conditions necessitating his service after retirement no longer exist."

Approved unanimously.

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

"As requested in your letter of July 31, 1942, the Board of Governors approves the payment of a salary to Mr. John H. Wurtz, Manager, Government Bond Department, at the rate of \$5,500 per annum, effective July 30, 1942, for the period ending March 31, 1943."

Approved unanimously.

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"The Board approves the changes in the personnel classification plan of your bank as requested in your letter of July 15, 1942, namely:

|                        | <u>Head Office</u> | <u>Detroit Branch</u> |
|------------------------|--------------------|-----------------------|
| Revision of pages..... | 25 46              | 8                     |
|                        | 26 47              | 11                    |
|                        | 27 140             | 16                    |
|                        | 37 162             | 24                    |
|                        | 40 163             | 56                    |

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|  | <u>Head Office</u>   | <u>Detroit Branch</u>  |                         |
|--|----------------------|------------------------|-------------------------|
| "Creation of new positions<br>as represented by pages....      | 130A<br>130B<br>149A | 6A<br>8A<br>11A<br>11B | 30A<br>31A<br>50<br>53C |
| Change in description of duties<br>as represented by pages.... | 76                   | 50A                    |                         |
| Elimination of position as<br>represented by page.....         | 78                   | --                     |                         |

"While the Board has approved an increase in the maximum salary for the position of Federal Reserve Agent's Representative at Detroit, attention is called to the fact that under the provisions of the Board's letter of April 2, 1937, X-9856, no change shall be made in the salary of an Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent, or Federal Reserve Agent's Representative without obtaining the Board's prior approval thereof.

"The Board also approves, effective July 1, 1942, the payment of salaries to five employees at the Head Office and six at the Detroit Branch, in excess of the maximum annual salaries provided in the personnel classification plan for the position occupied, as follows:

| <u>Name and Title of<br/>Position</u>    | <u>Department</u>          | <u>Annual<br/>Salary</u> |
|--|----------------------------|--------------------------|
| <u>HEAD OFFICE:</u>                      |                            |                          |
| Duncan Walker, Chief                     | Protection                 | \$3,700                  |
| W. G. Olson, Chief                       | Mail                       | 3,100                    |
| A. Monson, Supervisor                    | Mail                       | 2,620                    |
| J. Vavricka, Bookkeeper                  | Bond Department            | 2,640                    |
| O. Thomas, Record Custodian              | Bindery and Old<br>Records | 1,900                    |
| <u>DETROIT BRANCH:</u>                   |                            |                          |
| G. N. Mehney, Supervisor                 | Service                    | 2,640                    |
| F. C. De Yonkers, Return<br>Items Teller | Check                      | 2,220                    |
| H. A. Allen, Return Items<br>Teller      | Check                      | 2,280                    |
| Mary M. Mesle, Switchboard<br>Operator   | Telephone                  | 1,800                    |
| T. MacDonald, Utility Man                | Maintenance                | 2,040                    |
| Steve Samolin, Janitor                   | Maintenance                | 1,620"                   |

Approved unanimously.

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

"This will acknowledge your letter of July 28, 1942, advising of the action of your Executive Committee in authorizing the payment of a sum equal to three months' salary, \$900, as a dismissal wage to Mr. Charles A. Mattox, a former examiner for the Federal Reserve Bank of St. Louis, subject to the approval of the Board of Governors. Although the proposed payment is in excess of that authorized by letter S-7 of June 24, 1937 (F.R.L.S. #9152), in view of the unusual circumstances involved the Board will interpose no objection to the proposed payment as authorized by the Executive Committee of your bank."

Approved unanimously.

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

"This refers to the application of 'The Genesee County Savings Bank', Flint, Michigan, for permission to exercise fiduciary powers.

"In view of the information submitted by you, and in accordance with your recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission under the provisions of its condition of membership numbered 3, to exercise the fiduciary powers authorized under its charter and the laws of the State of Michigan. The Board's approval is given subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

- "1. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
- "2. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.

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- "3. 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.

"You are requested to advise 'The Genesee County Savings Bank', Flint, Michigan, of the Board's action and to obtain an appropriate resolution of the board of directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board.

"It is noted that Mr. Wilfred C. Dickie, former trust officer of the National Bank of Flint, is to be employed as vice president and trust officer of the applicant. The Board's approval of the application was based, among other things, upon the understanding that all trusts now handled by Mr. Dickie will be transferred to the applicant. Any trust to be taken over should, of course, be carefully reviewed and approved by the trust committee before acceptance. Please bring the Board's views in this matter to the attention of the bank."

Approved unanimously.

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

"Retel August 1 concerning Amendment No. 6 (to Regulation W), exception relates to adaptation of present equipment and not to complete replacement of one type by another."

Approved unanimously.

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

"This is in reply to your letter of July 25 regarding the situation of William Y. Gilmore and Son, Oak Park, Illinois, with respect to cycle billing under section 12(m) of Regulation W.

"Section 12(m), as you know, has been so drawn as to give the Federal Reserve Bank a liberal measure of discretion in making the decisions that operation of this section

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"will require the Reserve Bank to make. This applies without reservation to the decisions concerning impracticability that involve clauses 2(A) and 2(B) of section 12(m), and as to these any comments from the Board at any time are, of course, to be taken as suggestive rather than controlling.

"The question whether the store may be considered to have been 'using' a system of cycle billing 'on May 6, 1942', though it may partake of the nature of an interpretation on which an expression of opinion from the Board might perhaps be of special significance, may be viewed with equal reason as a question for the Reserve Bank. In any event, it is noted from the firm's letter of July 23 that the firm had at least begun the use on May 6 of a system of recording and billing charge accounts that meets the specifications of clause (1) of section 12(m), and it seems that in these circumstances the Reserve Bank, with its fuller knowledge of the facts, might well take the responsibility of deciding that the firm's application should not be thrown out by reason of the provisions of that clause."

Approved unanimously.

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

"This will acknowledge and thank you for your letter of July 23 enclosing copies of correspondence regarding Regulation W between you and Mr. A. B. Trott, President of the Daniels and Fisher Stores Company, Denver.

"One point raised by Mr. Trott on which some further investigation may be in order has to do with his statement that charge customers who may have paid promptly prior to May 6 are now insisting on taking the full amount of time allowed by sections 5(a) and 5(c) of the regulation. In addition to the misuse of Regulation W discussed in Mr. Parry's telegram of July 20, in which some merchants in their collection efforts misrepresent the requirements of the regulation, there are some indications that the reverse problem -- relating to the use of the regulation by customers in order to lengthen their payments -- may also be of sufficient importance to deserve consideration. It will therefore be appreciated if you will let the Board know whether you have encountered other merchants in your district who feel that Regulation W has the effect of slowing down their charge account collections.

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"If you care to express any opinion as to whether the Federal Reserve System should take action of some sort to counteract any such effect of Regulation W, your opinion would be welcome."

Approved unanimously.

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

"Receipt is acknowledged of your letter of July 13 asking whether, under section 5(d)(2) of Regulation W, a default in a charge account may be cured by an agreement to pay the amount in default in one payment, or whether, in view of the phrase 'instalment payments', the agreement must provide for more than one payment. In particular, you inquire about a case in which the agreement calls for a single payment one month from the date of the agreement.

"It is the Board's view that an agreement to pay the amount in default in a single payment at any time within one month from the date of the agreement will, under section 5(d)(2), suffice to cure the default. As you know, section 5(d)(2), which states the limits of the credit which can be extended, would permit an agreement to pay in two instalments, and the first instalment, representing substantially one-half of the amount of the default, could be made payable at any time within one month from the date of the agreement. Thus, an agreement of the kind in question would not only result in conformance with the permitted interval between the date of the agreement and the first instalment payment, in the usual instalment case, but would result also in completely liquidating the amount of the default within such permitted interval, thereby furthering the objective of the Regulation. Of course, in the case of any instalment credit, there is nothing in the Regulation to prevent the obligor from anticipating payments."

Approved unanimously.

Letter to Honorable Tom Connally, United States Senate, reading as follows:

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"We have received from Mr. Leon Henderson a copy of a letter addressed to you June 19 by Mr. O. H. Ross of Fort Worth, Texas, with the request that we write you regarding that portion of Mr. Ross' letter which has to do with Regulation W. A copy of the regulation is enclosed.

"We have read Mr. Ross' letter with interest. It is easy to realize why he finds his situation at this time a perplexing one. He refers to two governmental restrictions that have affected his piano sales, the first being the consumer credit regulation of this Board, with which he shows entire familiarity, and secondly the fact that the manufacture of pianos will be frozen. He is therefore confronted with restriction on his stock of merchandise and the imposition of stricter credit terms than seem to have usually been applied in his line of business.

"A principal purpose of the Board's regulation of consumer credit is to dampen the demand for certain articles, the manufacture of which requires materials essential for the war effort. Among these articles pianos, of course, are to be included. A method of dampening this demand is to restrict the use of credit for the purchase of such articles. This restriction upon demand was related to restrictions on production, and it is for this reason that Mr. Ross finds the volume of his business impaired by governmental restrictions on both demand and supply.

"An additional and important purpose of the regulation of consumer credit is to get people out of debt and to prevent them from incurring unnecessary debt at a time such as this.

"Of course we view Mr. Ross' problem with sympathy, but the restrictions on consumer credit were only imposed after careful consideration of all the facts involved and after consultation with manufacturers and vendors of the articles in question. Such changes in the credit restrictions as have been imposed were only promulgated after further consideration of the national and over-all problems at issue. We regret that we can offer no constructive suggestion as to what might be done by Mr. Ross. Nevertheless we shall be glad to discuss the matter further by correspondence with him or with you if either of you wish to do so."

Approved unanimously.



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Letter to Like-Nu Re-Upholstering Co., Inc., Chicago, Illinois,

reading as follows:

"This will acknowledge your letter of July 21, 1942, referring to the application of the Board's Regulation W to reupholstering. You make the point that a down payment of  $33\frac{1}{3}$  per cent on instalment contracts for this work is too high, particularly when only 20 per cent is required for the purchase of furniture.

"You will note from an examination of the regulation that it is now designed on the principle that, with a few exceptions, the minimum down payment and the maximum maturity should be uniform for all types of articles. Furniture is one of the exceptions, as a lower down payment is specified for furniture. This exception was made for several reasons, one of which is that up to now there has been no shortage of the basic material, wood. It would seem also that the amount of down payment required for reupholstering would not be so excessive in comparison with the down payment for new furniture inasmuch as the cost of the latter would be so much higher.

"We are sure that you appreciate the need for the curtailment of credit in a period when consumers' incomes greatly exceed the goods available to them. There are three ways in which a surplus consumer purchasing power can be kept out of the market for the diminishing supply of goods, (1) by taxation, (2) by investment in War Bonds, and (3) by the payment of personal debt. If Government induces the payment of personal debt to the extent of several billions of dollars, this desirable objective would be completely neutralized by permitting the creation of new consumer debt at the same time. We hope that this will give you a general idea of the current thinking on the problem of consumer debt and will enable you to understand that in the process of stabilizing the cost of living this important economic field must not be overlooked.

"In the administration of the consumer credit regulation, we have consistently tried to put the brakes on with discretion and not in a manner which would be destructive of business or work too great hardships. We know that you recognize that the business of some establishments will not be as good as it has been in the recent past for reasons that spring directly from the need to convert a large share of our productive capacity to war purposes.

"We are glad to have your comments and will study them carefully. In view of current developments, it would seem more likely that the down payment on furniture would be raised than that the down payment on upholstery would be reduced.

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"The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches. It is suggested that you may wish to address future communications to the Federal Reserve Bank of Chicago."

Approved unanimously.

Letter to the Commissioner of Internal Revenue, reading as follows:

"Reference is made to Treasury Decision No. 5160 dated July 6, 1942, interpreting the provisions of section 6 of the Public Debt Act of 1942 relating, among other things, to the taxability of dividends on shares of Federal Reserve Bank stock.

"In the Decision just referred to it is stated that 'for the purposes of this section, a stock or share is deemed to be issued at the time and to the extent that payment therefor is made to the agency or instrumentality. The date of issuance of the certificate or other evidence of ownership of such stock or share is not determinative if payment is made at an earlier or later date.' Under the Board's Regulation I, whenever a member bank files an application for an increase or decrease in its holdings of Federal Reserve Bank stock it is required to surrender the stock certificate previously issued to it and the Federal Reserve Bank issues a new certificate for the number of shares represented by the surrendered certificate decreased by the number of shares cancelled or increased by the number of additional shares issued. In other words, a member bank may not have more than one stock certificate evidencing its holdings of Federal Reserve Bank stock and it is possible for this certificate to represent shares issued before March 28, 1942, as well as shares issued after such date.

"In this situation and in view of the first-in first-out rule, the question has been raised by a member bank as to what steps must be taken by such bank to identify shares of Federal Reserve Bank stock which are surrendered in order to make inapplicable to such transaction the first-in first-out rule. For the guidance of our member banks, therefore, we shall appreciate advice as to whether the first-in first-out rule will be inapplicable if when a member bank surrenders some of its shares of Federal Reserve Bank stock it

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"identifies, by reference to the date of their acquisition, the shares which it is surrendering.

"In connection with the above, Federal Reserve Bank Form 56, which is used when adjustments of stock held by a member bank are made, does not now specifically provide for the designation by a member bank of the particular shares which it wishes to surrender. A copy of this form is enclosed and if the answer to the question contained in the immediately preceding paragraph is in the affirmative we shall appreciate advice as to whether, when a member bank surrenders Federal Reserve Bank stock and identifies the shares it is surrendering by reference on this form to the date of their acquisition, the first-in first-out rule will be inapplicable to the transaction.

"If it should be necessary for a member bank to take any other steps to make the first-in first-out rule inapplicable, we shall of course appreciate your advice as to any such steps.

"We are enclosing herewith for your assistance a memorandum, which was prepared by the General Counsel of the Federal Reserve Bank of Richmond, relating to the inquiry received from a member bank."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 17, 1942, for printing of Federal Reserve notes of the 1934 series in the denomination and amount stated for the Federal Reserve Bank of Atlanta:

| <u>Denomination</u> | <u>Number of sheets</u> | <u>Amount</u> |
|---------------------|-------------------------|---------------|
| \$5                 | 150,000                 | \$9,000,000"  |

Approved unanimously.

Memorandum dated July 28, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting a voucher in the total amount of \$61.60, covering travel and other expenses, including per diem, of John O. Bergelin, an Associate Economist in that Division,

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who, at the request of Mr. Goldenweiser and in order to avoid delay and unnecessary travel, on July 16, 1942, left Big Rapids, Michigan, where he was on annual leave, for official business at the Federal Reserve Bank of Chicago on July 16 and 17 and returned to Washington on July 18, 1942. The memorandum recommended that Mr. Bergelin's leave be considered as terminating with his departure from Big Rapids on July 16 and that payment of the voucher in the amount of \$61.60 be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.