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

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. Draper  
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 August 13, 1942, were approved unani-  
mously.

Telegrams to Messrs. Treiber and Hays, Secretaries of the Fed-  
eral Reserve Banks of New York and Cleveland, respectively, Mr. Leach,  
President of the Federal Reserve Bank of Richmond, Messrs. Dillard,  
Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago,  
St. Louis, and Minneapolis, respectively, Mr. Caldwell, Chairman of the  
Federal Reserve Bank of Kansas City, and Mr. Hale, Secretary of the Fed-  
eral Reserve Bank of San Francisco, stating that the Board approves the  
establishment without change by the Federal Reserve Banks of St. Louis  
and San Francisco on August 11, and by the Federal Reserve Banks of New  
York, Cleveland, Richmond, Chicago, Minneapolis, and Kansas City on Au-  
gust 13, 1942, of the rates of discount and purchase in their existing  
schedules.

Approved unanimously.

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Memorandum dated August 12, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Mary Ann McCann be appointed as a clerk in that Division, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 13, 1942, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that the salary of Gordon Johnson, a messenger in Chairman Eccles' office, be increased from \$1,380 to \$1,500 per annum, effective August 16, 1942.

Approved unanimously.

Memorandum dated August 10, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the leave of absence without pay granted to Mrs. Gunhild Anderson Kenny, an Associate Economist in that Division, because of confinement be extended from August 16 through September 15, 1942, inasmuch as Mrs. Kenny and her physician feel this additional leave is desirable in connection with the health of her baby.

Approved unanimously.

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

"As requested in your letter of August 7, 1942, the Board approves the payment of salary at the rate of \$7,000 per annum to Mr. John K. Langum, Assistant Vice President, effective August 16, 1942, for the period ending March 31, 1943."

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Approved unanimously.

Letter to the board of directors of the "First Jeannette Bank and Trust Company", Jeannette, Pennsylvania, 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 Cleveland:

"7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,502.07, as shown in the report of examination of such bank as of June 22, 1942, made by an examiner for the Federal Reserve Bank of Cleveland."

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to act as surety in certain circumstances. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership.

"The report of examination shows that the operations of the trust department are not well organized, and that the records are inadequate, incomplete, and in such condition that a satisfactory examination could not be made. The trust officer, who is secretary of the bank, is reported to have had little experience in trust administration and it appears that he does not have sufficient time to devote to trust matters. Acceptance of trust business entails serious responsibilities and if the bank intends to continue to hold itself out as being a qualified corporate fiduciary, as a member bank it will be expected to take the necessary steps to give the trust department adequate and efficient supervision and to equip itself to handle the business in conformity with recognized principles of sound fiduciary practices."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'First Jeannette Bank and Trust Company', Jeannette, Pennsylvania, 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 Secretary of Banking for the Commonwealth of Pennsylvania for his information.

"In the presentation memorandum submitted in connection with the application the statement is made that the bank, if admitted to membership, will be required to conduct its trust department in a satisfactory manner or it will be urged that fiduciary powers be relinquished and the department liquidated. It is assumed, of course, that the Reserve Bank intends to press for prompt action in this connection and it is requested that you advise us of the steps taken when the matter has been brought to a satisfactory conclusion.

"It is assumed also that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the nonconforming savings accounts listed on page 16 of the report of examination for membership and making the necessary corrections in the savings pass books and certificate of deposit form. In this connection it has been noted that the account of City of Jeannette School District is listed as a nonconforming account whereas this account may conform (See Loose-Leaf Service #6351)."

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

"Reference is made to your letter of August 8, 1942, and previous correspondence concerning the proposed purchase of assets and assumption of the deposit liabilities of the National Bank of Adrian, Adrian, Michigan, by the Lenawee County Savings Bank, Adrian, Michigan.

"The Board understands that, other than furniture and fixtures to be acquired at a fixed price of \$4,000, the member bank is to acquire no fixed assets, that the proposed transaction has been approved by the Commissioner of Banking

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"for the State of Michigan and that Counsel for the Reserve Bank is of the opinion that there will be no change in the general character of the bank's assets or broadening of its functions such as would tend materially to affect the standard maintained and required by the condition of membership to which the bank is subject. In the circumstances, the Board will interpose no objection to the consummation of the transaction substantially in accordance with the plan as submitted."

Approved unanimously.

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

"The instructions of the United States Maritime Commission of May 7, 1942, issued pursuant to Executive Order 9112, provide that if the amount of a guarantee to be made by the Maritime Commission does not exceed \$100,000, the Federal Reserve Bank, acting as fiscal agent of the United States, may execute and deliver such guarantee without submitting the matter to any other officer or agent of the Maritime Commission for prior approval. We understand that the Maritime Commission interprets this provision of its instructions as referring to the amount of the guarantee regardless of the amount of the loan which is to be guaranteed.

"As you know, the instructions of the War Department of April 8, 1942 (as modified April 14, 1942) contain a somewhat similar provision regarding the authority of the Federal Reserve Banks to execute guarantees without submitting them to the War Department for prior approval. You will note, however, that in the War Department's memorandum of July 22, 1942, enclosed with the Board's letter of July 25, 1942, this authority was limited to cases in which the 'amount of a loan' to be guaranteed by the War Department, together with other loans guaranteed by the War Department, Navy Department and Maritime Commission, through the agency of the Federal Reserve Bank, and outstanding with respect to the same enterprise, does not exceed \$100,000.

"We have discussed this matter with the War Department and are advised that the provision of the War Department's instructions mentioned above should be interpreted as referring to the amount of the loan which is to be the subject of the guarantee and not to the amount of the guarantee."

Approved unanimously.

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

"For your information, there are enclosed ten copies of a revised form of Application for a Necessity Certificate for use under the provisions of section 124 of the Internal Revenue Code. We are advised that this form, which is designated Form TAS-21 (Revised July 9, 1942), has been approved by the War Department, the Navy Department, the Bureau of the Budget, and the War Production Board. The revised form supersedes Form 3044, which was enclosed with the Board's letter of March 10, 1941 (R-796).

"In this connection, there are also enclosed three copies of Form TAS-24, revised July 9, 1942, General Instructions for Application for a Necessity Certificate, and a copy of a letter addressed by the Navy Department to all applicants for necessity certificates, dated July 30, 1942, regarding the use of the revised form of application after September 1, 1942."

Approved unanimously.

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

"This refers to your letter of July 24, 1942, regarding the operation under Regulation W of the 'credit card' system of the Atlantic Refining Company, Philadelphia, Pennsylvania, and enclosing copies of letters dated June 18, June 29 and July 10 to Mr. R. R. Williams at your Bank from that Company, together with Forms B139CS and B3194 used in connection with such system.

"You state that credit cards issued by the Company may be presented at any of its own retail outlets or at dealers in the Company's products contracting to honor such credit cards. It appears that such contracting dealers do not always assign and forward to the Company the charge slips of credit card sales as promptly as they should, the delay in some cases being as much as two or three months. Such credit cards being good for not only gasoline and oil purchases but also the purchase of listed articles, it is stated that the Company would be put to great expense in notifying each retail outlet of any defaults that may occur under section 5(c) in order to prevent further credit sales of listed articles contrary to section 5(b).

"As to those retail outlets operated by contracting dealers, which are referred to in the Company's letters of

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"June 18 and 29 as 'independent merchants', you suggest the possibility that the dealers be regarded as extending the credit as agents for the Company. It is the Board's view, however, as previously expressed with regard to similar cases, that such dealers themselves are to be regarded as the seller-Registrants under sections 2(g) and 5(b). An examination of the information and enclosures submitted by you would not appear to justify a contrary view.

"You also suggest, as a partial remedy, the application of section 5(f) to sales of listed articles costing \$5 or less, and the exclusion from credit card purchases of listed articles costing in excess of the \$5 limitation of section 5(f). In the Board's opinion, this would seem to solve a large part of the Company's problem. It should be noted, however, that the 'discovery' referred to in section 5(f) means discovery with reasonable promptness and not wilfully or negligently delayed. In no event, of course, may the Registrant apply section 5(f) in cases of articles selling for more than \$5.

"With respect to an outlet operated by a contracting dealer, compliance with section 5(f) would necessitate promptness by the dealer in assigning and forwarding to the Company the charge slips of credit card sales and equal promptness by the Company in checking the proper accounts and notifying the dealer regarding any accounts that may be in default. In addition, should any such dealer wish to continue credit sales of listed articles selling for more than \$5 (even though such credit would not be assignable to the Company), it would be necessary that he ascertain that previous charge sales to the same customer assigned to the Company were not in default."

Approved unanimously.

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

"This refers to your letter of July 28, 1942, enclosing copies of correspondence dated July 20 and July 28 between you and Mr. S. F. Gilmore, and relating to the question and answer which appeared in the June 1942 issue of the 'Retail Lumberman' magazine concerning the application of section 5(c) of Regulation W to purchases of building materials. The aforementioned question and the answer read as follows:

'Q. A home owner is doing a rather extensive remodeling job on his home. He buys some sand, cement and lumber on May 27, some more lumber and builders'

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"hardware on June 19 and some shingles and paint on July 14. Now all of these materials were sold to the OWNER on his charge account and all were for the SAME JOB. Assuming that only materials for this one job are in his charge account, will his May account be in default if not paid on or before July 10 and his June account be in default if not paid on or before August 10 and his July account be in default if not paid on or before September 10, 1942?"

'A. No. Where there are several deliveries extending over more than one calendar month on the SAME job, credit time starts from the time of the final sale of the articles or merchandise and thus, in the above case, NONE of the customer's charges would be in default until September 10, 1942 (the tenth of the second month, following the month in which the final charge was made).'

"While, as indicated in S-530-a, the answers in such cases will depend upon the rights of the parties as fixed by their contracts, it is the Board's view, on the basis of the information contained in the above question, that the purchases on May 27, June 19 and July 14 were separate charge sales, and that section 5(b) would have forbidden the charge sale of July 14 if the articles sold in the purchaser's charge account on May 27 had not been paid for by July 10 or the default otherwise cured under section 5(d). Similarly, the default would occur as to the June 19 and July 14 charge sales on August 10 and September 10, respectively. This assumes, of course, that sections 9 and 12(m) are inapplicable.

"The difference between this situation and those involved in W-2 and W-43, to which you referred, is that in each of those interpretations the transaction involved was a single contract for an entire job of modernization, installation or construction, which of course, would frequently require both building materials and services, rather than merely the sale of such materials. This difference may be noted from the reference in S-530-a to W-43 following the statement that if the articles are sold to a contractor, the sales are exempt under section 8(f). Thus, if the seller of the supplies undertakes also the work of modernization, installation or construction as one entire transaction, as may very well be the usual case where a contractor is employed, then it is probable that the interval before default under section 5(c) would not start running until the project is completed. However, from the foregoing question it would appear that the supplier's only function is the sale of materials and that he makes a series of separate sales."

Approved unanimously.

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Letter to Mr. Lewis H. Fisher, Chief of the Retirement Division, United States Civil Service Commission, reading as follows:

"The statement entitled 'Membership of the Retirement System of the Federal Reserve Bank', which was left with us by Miss Clark of your Division, has been carefully reviewed and checked for accuracy. Data which are incorrect have been crossed out in ink. Deletions and insertions have been clearly indicated on the original copy, which is attached hereto. Corrections are as of the above date, unless otherwise stated.

"The term 'employing bank' as used in the first paragraph of the attached statement as submitted is correct, but the changes indicated have been suggested in the interests of clarity in this brief digest."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrey

Secretary.

Approved:

W. B. ...

Chairman.