

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 3, 1942, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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 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 September 2, 1942, were approved unanimously.

Memorandum dated August 29, 1942, from Mr. Morrill, recommending that Mrs. Doris Eliason be appointed as a stenographer in the Secretary's Office, with salary at the rate of \$1,620 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 31, 1942, from Mr. Morrill, recommending that Miss June Keesee be appointed as a junior file clerk in the Secretary's Office, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her

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duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 18, 1942, from Mr. Smead, Chief of the Division of Bank Operations, recommending, for reasons stated in the memorandum, that Mrs. Margaret K. Ball, a clerk in that Division, be allowed to take the balance of her accumulated and current accrued annual leave during the period September 2 to 15, 1942, inclusive, that she be granted leave of absence without pay from September 16, 1942, to March 15, 1943, inclusive, and that during her absence the Board continue to make its contributions to the retirement system on her behalf provided she continues her own contributions during the period.

Approved unanimously.

Memorandum dated August 31, 1942, from Mr. Morrill, recommending that Sven E. Johnson, foreman of laborers in the Secretary's Office, be granted leave of absence beginning August 26, 1942, so that he might enter active duty with the United States Navy, that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service, except the payment of one month's unearned salary, and that he be continued on the pay roll until the expiration of his accumulated and current accrued leave.

Approved unanimously.

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Memorandum dated August 29, 1942, from Mr. Cravens, Administrator for the War Loans Committee, submitting the resignation of Mrs. Frederica R. Lockhart as his secretary, to become effective as of the close of business on September 23, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"In accordance with the request contained in your letter of August 29, 1942, the Board approves the appointment of Claude C. Blakemore as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"We have reviewed the report of examination of the 'American Bank & Trust Company', New Orleans, Louisiana, as of May 19, 1942, together with previous reports, and Mr. Clark's letter of June 19, 1942, forwarded before transmission of the current report. You also discussed the situation in the bank with members of the Division of Examinations during a recent visit to Washington.

"The unsatisfactory features of the situation have been discussed at length both directly and by correspondence. Full credit must be given for the improvements effected in the asset condition of the bank and its present highly liquid position must be recognized. However, inadequacy of capital in relation to investments in bank premises, other real estate, and potential other real estate, insufficient earnings, certain undesirable competitive practices and, most importantly, the attitude of the management, remain

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"problems of primary magnitude requiring positive correction. It is difficult to understand the purpose of the management in withholding pertinent information and misrepresenting facts in connection with examinations, which, of course, cannot be condoned under any circumstances.

"The Board feels that you should meet with the bank's Board of Directors as soon as such a meeting can be arranged and such members of your staff as you may wish should also be present. At this meeting the situation should be discussed fully and frankly and it should be made clear to the directors that prompt and effective action to remove the causes for criticism will be expected. It is hoped that such a meeting may result in the formulation of a definite program to meet the needs of the situation which can be placed into immediate operation. Your report will be awaited with interest."

Approved unanimously.

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

"There is enclosed herewith for your information and guidance a copy of a letter dated August 27, 1942, received by the Board of Governors from the Comptroller General of the United States in response to a letter addressed to the Comptroller General by the Board under date of June 11, 1942. This correspondence relates to the requirements of the Comptroller General and the procedure of his office with regard to the assignments of claims and notices thereof pursuant to the provisions of the Assignment of Claims Act of 1940, especially in connection with loans guaranteed under the provisions of Regulation V."

Approved unanimously.

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

"For your information, the Board has received a letter from the Maritime Commission, signed by R. E. Anderson, Director of Finance, dated August 28, 1942, regarding the interest rate charged on loans guaranteed under Executive

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"Order 9112, reading as follows:

'Relative to interest rates on Regulation V Loans which are guaranteed by the Maritime Commission, I will appreciate your advising all Federal Reserve Banks that it is of fundamental importance for all financing institutions to see that the interest rates charged on all such loans are as low as possible, commensurate with the risk involved.

'Since, in effect, interest is a cost item to the Maritime Commission, it is the responsibility of the Commission to notify its agents of the necessity to maintain this cost of the shipbuilding program at the lowest possible level.' "

Approved unanimously.

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

"The Board has received from the War Department a memorandum dated August 29, 1942, signed by Lieutenant Colonel Paul Cleveland, regarding the necessity for the appearance of the corporate seal of the financing institution on guarantee agreements executed on behalf of the War Department under Executive Order No. 9112. A copy of this memorandum is enclosed herewith for your information and guidance."

Approved unanimously.

Letter to Colonel John C. Mechem, Chief of the Miscellaneous Branch, Fiscal Division, Services of Supply, War Department, reading as follows:

"In accordance with your recent telephone conversation with Mr. Cravens, there is submitted herewith for the approval of the War Department a proposed letter to the Presidents of all Federal Reserve Banks regarding the modification of the form of application to be submitted by financing institutions for guarantees of loans pursuant to Executive Order No. 9112.

"A copy of the form sent out with the Board's letter S-521 is attached for your convenient reference.

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"It will be appreciated if you will advise the Board whether the proposed letter meets with your approval."

Approved unanimously, together with similar letters to Mr. B. B. Griffith, Assistant to the Director of Finance of the Maritime Commission, and Mr. Sidney A. Mitchell, Chief of Finance Section of the Office of Procurement and Material, Navy Department. The proposed letter to the Presidents of all the Federal Reserve Banks referred to in the above letter read as follows:

"Referring to the Board's letter S-521 of June 30, 1942, the revised form enclosed with that letter has been modified by the following insertions and amendments:

- 9.(a)(6) Nature of product.
- 9.(b)(1) Amend to read: 'Name and address of concern issuing subcontract and signatory.'
- 9.(b)(3) Amend to read: 'Unit of government for which products are being provided and prime contract number.'
- 9.(b)(6) Nature of product.

"In the case of Navy Department guarantees, where the applicant for the loan is a subcontractor, it is desirable, whenever possible, to obtain from the company letting the subcontract a letter relative to the subcontractor's ability to perform pursuant to the terms of the subcontract."

Letter to Mr. Raisty, Manager of Consumer Credit Control at the Federal Reserve Bank of Atlanta, reading as follows:

"This will acknowledge your letter of August 24 relating to the sale of an automobile to a person who is unable to make the down payment required by section 13(c) of Regulation W on the desired automobile.

"You are, of course, correct in informing inquirers that no exception is provided in Regulation W for a situation of the kind discussed. This matter, which is discussed in more detail in the letter from Mr. Sidney H. Stapleton which you enclosed, will be given further consideration here. Such consideration will naturally be influenced, however, by the fact that it is ordinarily

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"possible for a person, who needs an automobile but is unable to make the required down payment on a new car, to buy a serviceable used car at a lower price."

Approved unanimously.

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

"Retel August 7. Section 8(m) of Regulation W does not exempt credit to finance the installation of a stoker if same kind of coal is to be used. Stoker installed in connection with change of fuel, as from oil to soft coal or from hard coal to soft coal, qualifies only when stoker is necessary for mechanical reasons to burn the type of coal to be used."

Approved unanimously, with the understanding that copies of the above telegram would be wired to the Presidents of all the Federal Reserve Banks.

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

"Receipt is acknowledged of your letter of August 26 regarding the meaning of the phrase 'materials and services' in Group C of section 13(a) of Regulation W.

"You refer to S-507 and the interpretation published in the July Federal Reserve Bulletin. These interpretations mean that the phrase 'materials and services' covers materials and any services rendered in connection therewith by the seller of the materials. Stated in another way, they mean that the Regulation is not applicable if the person who extends the credit furnishes services only."

Approved unanimously.

Letter to Mr. L. A. Beers, President of the Institute of Carpet Manufacturers of America, Inc., New York, New York, reading as follows:

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"This will acknowledge your letter of August 24, referring to the application of the Board's Regulation W to purchases of rugs and carpets on instalment credit. You point out that a down payment of $33\frac{1}{3}$ per cent is required for the purchase of rugs and carpets while furniture can be bought with a down payment of 20 per cent. You feel that the down payment should be the same for both categories of goods.

"You will note from 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, and very careful attention was given to the conditions concerning the furniture industry before the exception was decided upon. The reasons that led the Board to prescribe the lower down payment for furniture do not appear to be applicable to rugs and carpets.

"We are enclosing a copy of a press release dealing with the purposes of Regulation W. As you will see from this release, the regulation was issued in accordance with the policy stated by the President in his message to Congress April 27, in which he said: 'To keep the cost of living from spiraling upward, we must discourage credit and instalment buying and encourage the paying off of debts, mortgages, and other obligations.' It is essential to the success of the war effort that civilian consumption of certain materials and articles give way to military and naval requirements. The increase in wage payments due to war activity has resulted in a great increase in civilian purchasing power, which, if left unregulated at the same time that the supply of goods for sale is diminishing, would cause an inflationary advance in prices. The purpose of Regulation W is to help prevent this inflationary advance, which would impair the value of money and of savings and increase the cost of living.

"We are at all times glad to receive comments concerning Regulation W from the industries affected, and will study carefully any information which you may care to make available to us concerning this problem. In view of probable future developments, it would seem possible that the special reasons for making an exception of furniture would tend to disappear and that the furniture down payment would be made uniform with the down payments for other articles.

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"The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches. You may find it convenient to address any future communications you have with respect to the regulation to the Federal Reserve Bank of New York."

Approved unanimously.

Letter to Mr. Sproul, Chairman of the Presidents' Conference Committee on Bank Examination Procedure, Federal Reserve Bank of New York, reading as follows:

"Your letter of August 20, acknowledging receipt of copies of the letters received from the several Federal Reserve Banks in response to the Board's letter Z-783 of July 7, 1942, advises that your Committee will hold itself ready to respond to an invitation of the Board to discuss the problem in line with your request of July 20, 1942.

"At the forthcoming conference of representatives of the Bank Examination Departments of the Federal Reserve Banks, which will be held in Philadelphia beginning on September 22, it is contemplated that consideration will be given to this whole general question. Accordingly, it is suggested that the meeting with your Committee not be held until after the Board's Division of Examinations has had an opportunity to study the problem further in the light of the comments and suggestions which are expected to be received at the forthcoming conference."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

[Signature]
Vice Chairman.