

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 14, 1942, at 2:00 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Draper

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:

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

"The Board of Governors approves the following changes in the personnel classification plan at the Head Office and Detroit Branch as submitted with your letter of September 1, 1942:

Pages 11-A and 11-B of the Head Office plan, reflecting increases in the maximum annual salaries of the Assistant Supervisors in the Mail Department (Day and Night Forces) from \$1,500 to \$2,000.

Pages 207 to 211 inclusive of the Head Office plan, and page 63 of the Detroit Branch plan, reflecting the change in the name of the Installment Credit Department to Consumer Credit Department.

"In view of the special circumstances governing the appointment and the relationship of the Executive Manager of the Victory Fund Committee, it is felt that the position does not properly come within the scope of the personnel classification plan. Accordingly proposed page 215 as submitted with your letter is not approved. For your information, none of the personnel classification plans of the other Reserve Banks provides for such a position."

Approved unanimously.

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Letter to the board of directors of the "Arkansas Trust Company", Hot Springs, Arkansas, stating that, subject to conditions of membership numbered 1 to 6 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.

The letter also contained the following special comments:

"The Board is prescribing the conditions of membership ordinarily prescribed for banks exercising fiduciary powers when they are admitted to membership and it will not object, under condition of membership numbered 1, to your bank resuming the exercise of such powers, as is now contemplated. It is understood, of course, that when such business is undertaken, your bank will have qualified personnel and be otherwise equipped to handle it in a proper manner.

"It appears that your bank may have certain powers which are not being exercised and which are not incidental to the conduct of a banking and trust business, and attention is called to the fact that it will be necessary under condition of membership numbered 1, to obtain the Board's permission before exercising such powers. In this connection, it is understood that there has been no change in the scope of the corporate powers exercised by the bank since it applied for membership."

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 'Arkansas Trust Company', Hot Springs, Arkansas, 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 Bank Commissioner for the State of Arkansas for his information.

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"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts referred to on page 16 of the report of examination for membership."

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

"This refers to your letter of September 5, 1942, enclosing copies of correspondence between your bank and The First National Bank of Galveston, Galveston, Texas, with respect to the question whether the latter bank may lawfully accept, under the provisions of the Board's Regulation Q, a savings deposit from an army post exchange.

"It is understood that the army post exchange here involved is of the same type and character as the post exchanges operated in many army camps and posts through the United States; that its primary purpose is to provide soldiers with a convenient and readily accessible mercantile establishment where they may purchase various items of merchandise at reasonable prices; and that, while it makes a small profit on its sales, the making of such profit is incidental to its principal purpose of being a service organization for the benefit of service men.

"On the basis of these facts, it is the view of the Board that the army post exchange in question may not be regarded as an 'organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit'; and that, accordingly, funds deposited by it in a member bank do not constitute savings deposits within the meaning of the definition of that term contained in Regulation Q.

"Several years ago, in reply to a somewhat similar inquiry, the Board stated that where funds are held by a 'custodian' for the benefit of the members of a certain service organization and are, in fact, used only for educational and recreational purposes, no objection would be offered to the classification of such funds as savings deposits if they otherwise complied with the requirements of the definition set forth in Regulation Q. If in the present case further information should come to you which indicates that the funds of the post exchange here involved are, in fact, used solely for educational or recreational purposes, the Board would offer no objection to the classification of such funds as savings deposits.

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"In this connection, it is suggested that consideration might be given to the transfer of the funds in question to interest-bearing time deposit accounts."

Approved unanimously.

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

"For your information and that of your Counsel in connection with Regulation V and other loan transactions, there are enclosed two copies of the opinion of the United States Circuit Court of Appeals for the Second Circuit in the case of Rockmore v. Lehman, which was decided August 19, 1942.

"This case was first heard by the Circuit Court of Appeals in May 1942 and a decision was rendered on May 21, 1942, reported in 128 Fed. (2d) 564, to the effect that, under New York law, an assignment of monies to become due under a contract under certain circumstances is invalid as against a trustee in bankruptcy. On a petition for a rehearing briefs were filed on behalf of several New York banks and by Reconstruction Finance Corporation in support of the petition. In the opinion herewith enclosed, the Circuit Court of Appeals has reversed its previous decision and in effect, therefore, has upheld the validity of such an assignment as against a trustee in bankruptcy."

Approved unanimously.

Letter to Mr. B. B. Griffith, Assistant to Director of Finance of the United States Maritime Commission, reading as follows:

"It will be recalled that at the conference on August 12, 1942, with reference to loans under Executive Order 9112, the view was expressed that the position heretofore taken with respect to the charging of more than 5 per cent interest on guaranteed loans after maturity should be reversed, and also that the advice given in your letter of July 3, 1942, with respect to a special condition where interest after maturity is greater than the normal loan rate might be cancelled. It was requested that letters be prepared to carry out this view.

"It has heretofore been the position of the Board and of the Services that in no event should any interest rate payable by the borrower in connection with a guaranteed loan, whether interest after maturity, interest on overdue

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"interest, or otherwise, exceed the maximum rate prescribed for guaranteed loans, namely, 5 per cent per annum. Since the conference on August 12, this matter has been the subject of further discussion and consideration, and the Board feels that the position heretofore taken on this question is correct and should not be modified at this time. If the present position on this question is maintained, it is assumed that you do not desire to make any change at this time in the advice given in your letter of July 3, 1942, with respect to a special condition where interest after maturity is greater than the normal loan rate.

"In the circumstances, we have not undertaken to prepare any letters along the lines suggested at the meeting on August 12. We trust that this disposition of the matter will meet with your approval, but if not, we will, of course, be glad to consider the matter with you further."

Approved unanimously, together with similar letters to Mr. Sidney A. Mitchell, Chief of Finance Section of the Office of Procurement and Material, Navy Department, and Colonel John C. Mechem, Chief of the Miscellaneous Branch, Fiscal Division, War Department.

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

"This refers to your letter of August 18, 1942, enclosing a copy of a memorandum dated July 31, 1942, from the Household Finance Corporation to all of its Western branch offices, relating to the preservation of Statements of Borrower obtained pursuant to Regulation W. You point out that, because of the present inability to obtain additional filing equipment, and because the Corporation does not carry more than one loan contract with a borrower at the same time, there being frequent consolidations of old loans with new cash advances, the Corporation has advised its Western branch offices that they need retain only the last two Statements of Borrower.

"As you know, the question of preserving old records is under study but has not been settled. It involves a number of complexities, among which is the necessity of designating the particular records which are to be kept on file. In the meantime, it would not seem desirable to make a special rule with respect to the Statement of Borrower.

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"We feel that the procedure proposed by Household Finance Corporation would not be suitable for adoption when a time-limit rule for the preservation of records is prescribed, inasmuch as it would often result in the destruction of records that would be essential to an investigation of transactions occurring quite recently. In addition, both the Statement of Borrower and the Statement of Necessity instruct Registrants to keep the statements 'on file'. Therefore, the Regulation in effect requires these statements to be retained until such time as a rule with respect to time limits is prescribed.

"While we are not unmindful of difficulties that may be experienced in securing adequate filing or storage space, such records as are required for an adequate enforcement of the Regulation must be preserved. We assume that part of the loan records are preserved for the period of limitation of actions under State law which, in some cases, exceeds three years, the applicable Federal limitation for prosecution of offenses. The addition of the Statement of Borrower to these records would not seem to create an undue burden for the Registrants."

Approved unanimously.

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

"This refers to your letter of August 29, 1942, relating to the application of Regulation W to the use of 'merchandise orders' which are sold on credit by stores and which may be presented to such stores in payment for merchandise subsequently purchased, either by the persons to whom such orders were sold or, as is frequently the case, by other persons. It seems that you are interested primarily in those cases where such orders are sold in charge accounts.

"In view of both sections 11(a) and 11(e), the Board agrees with your view that the use of 'merchandise orders', which may be used in the purchase of listed articles, would not violate the restrictions of the Regulation applicable to charge accounts so long as any such order is not charged in an account that is in default and default is deemed to occur upon failure to pay for any such order within the period specified in section 5(c). Of course, in some cases, this might be more strict than is actually required by the Regulation; but, under such procedure, as you point out, there

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"would be no need for restricting or policing the use of such orders, and they could be accepted by the store as the equivalent of cash.

"As you know, a merchandise order which has not been paid for, could not be used as the required down payment in an instalment sale in view of section 11(e)."

Approved unanimously.

Letter to Mr. Allan C. Stevens, President of the Great Eastern Fire Insurance Company, White Plains, New York, reading as follows:

"Thank you for your letter of September 4 replying and commenting on our letter of August 19 regarding the application of the Board's Regulation W to the financing of fire and casualty insurance premiums.

"We gather from your letter, and from the letter of Mr. Edward I. Taylor which you enclosed, that the insurance companies have used and will continue to use their influence toward the use of notes payable to the lending institutions, rather than 'payee notes', in the financing of such premiums. Such notes payable to lending institutions are, as set forth in our letter to you dated July 23, subject to the restrictions of section 6 of Regulation W unless they fall within the class exempted by section 8(g). Consequently, this influence by the insurance companies will result in a tendency for notes given in payment of premiums, where made for \$1500 or less, to meet the conditions specified in section 8(g) of Regulation W.

"It would appear that the making of notes under the provisions of section 8(g) will permit the financing of premiums on a basis that will be quite satisfactory to most policy holders, who may desire to save money by taking policies for more than one year and yet pay their premium costs in convenient instalments, but will cause the total amount of credit that will be outstanding to be somewhat less than would be the case if the notes did not conform to the requirements of section 8(g). This effect on the amount of credit is, of course, a desirable one from the point of view of the Board, and the Board therefore does not see any reason for amending the regulation in this respect.

"The foregoing discussion may seem to suggest that Regulation W ought to be amended so that 'payee notes' given

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"in payment of insurance premiums will also be subject to the restrictions of the regulation. At the present time, however, the amount of credit that would be eliminated by such an amendment does not seem to be sufficient to justify the necessary amendment of the regulation, particularly in view of the Board's desire to avoid complicating the regulation by adding further provisions that are not absolutely necessary."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to Mr. Lawrence M. C. Smith, Chief of the Special War Policies Unit, Department of Justice, reading as follows:

"In the absence of Chairman Eccles, I acknowledge receipt of your letter of September 1, 1942, with further reference to the offer of the Council of State Governments to assist in obtaining State legislation or administrative action to facilitate the war effort.

"In response to your suggestion, Mr. Walter Wyatt, the Board's General Counsel, has been designated to deal with the Council of State Governments and representatives of the States in the subsequent development and handling of the suggestions contained in Chairman Eccles' letter of August 21, 1942."

Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman