

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 21, 1942, at 11:00 a.m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics  
Mr. Thomas, Assistant Director of the Division  
of Research and Statistics

It was stated that following a release to the press on September 15, 1942, of the Federal Reserve Bulletin for September, which contained an article entitled "Bank Credit, War Financing, and Savings", Mr. Flynn, reporter for The Wall Street Journal, discussed the article with Mr. Thomas, after which Mr. Flynn wrote an article which appeared in The Wall Street Journal this morning and which, after referring to the statement contained in the Bulletin article that the growing volume of bank deposits and currency holdings was available for such use as the owners might wish to put them, stated that officials said that this means that the Federal Reserve is concerned about the volume of savings and cash in the hands of individuals, but is downright alarmed about the lack of control over the use of the funds. The article also said that Federal Reserve officials point out that personal savings, in the form of bank accounts, may be inflationary if there is nothing to prevent such savings from being tapped

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for spending. A front page note on the article stated that savings accounts might be subjected to some form of control, according to Federal Reserve officials, to prevent the inflationary effects which would result if they were extensively tapped for spending.

Mr. Thomas stated that he had said nothing to Mr. Flynn that would justify the statements contained in the article with respect to savings accounts and that Mr. Flynn had promised to make a correction. It was also stated that the difficulty came from Mr. Flynn's having referred to personal savings as being in the form of bank accounts rather than savings in the hands of individuals from earnings. It was also pointed out that if wide attention were paid to the article it might result in large withdrawals of savings balances to avoid restrictions on savings accounts, and that the question was what, if any, action the Board should take to contradict the objectionable statements contained in the article.

Mr. McKee suggested that probably the best way to approach the problem would be to have Mr. Sproul, President of the Federal Reserve Bank of New York, talk to Mr. Grimes, the editor of The Wall Street Journal, in New York and get him to correct the statement. The suggestion was also made that if this course were followed the Board might issue a brief statement denying certain statements contained in the article.

Mr. Ransom called Mr. Sproul on the telephone and discussed these suggestions with him, and Mr. Sproul stated that he would talk to Mr. Grimes and call Mr. Ransom again. Shortly thereafter Mr. Sproul called and stated that he had talked to Mr. Grimes, who had been preparing to write an editorial on the basis of Mr. Flynn's article, and that he thought there were

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some people in Washington who had the idea of controlling savings accounts. Mr. Sproul said that he told Mr. Grimes that the Board was going to issue a denial and that so far as we knew no one in Washington had any idea with respect to the control of savings accounts, whereupon Mr. Grimes said he thought it was important to correct the article and that he would get in touch with Mr. Flynn and call Mr. Sproul again.

Following the conversation with Mr. Sproul, it was understood that Messrs. Szymczak, Thurston, and Goldenweiser would draft a brief direct statement for the press for consideration by the Board following a further conversation with Mr. Sproul this afternoon.

Thereupon, the meeting recessed and reconvened at 2:35 p.m. with the same attendance as at the morning session except that Mr. Clayton, Assistant to the Chairman, was in attendance and Mr. Thomas was not present.

The draft of statement prepared in accordance with the understanding reached at the morning session was discussed and certain changes were suggested therein. While the discussion was in progress, Mr. Sproul called on the telephone and said that Mr. Grimes had called again and that, while the latter felt that Mr. Flynn had received the impression conveyed by the article from his conversations in Washington, he (Mr. Grimes) was agreeable to making a correction. Mr. Sproul also said that Mr. Flynn wanted to talk to Mr. Thomas about the matter and that he had suggested to Mr. Grimes that Mr. Flynn talk to Mr. Ransom.

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Mr. Ransom then read to Mr. Sproul over the telephone the draft of press statement, and Mr. Sproul said that he thought that was the kind of statement to make. Mr. Ransom also stated that if the statement were issued it would be sent to all of the Federal Reserve Banks for their information.

At the conclusion of the conversation with Mr. Sproul, upon motion by Mr. Szymczak and by unanimous vote, the following statement for the press was approved for immediate release, with the understanding that a copy thereof would be sent to the Presidents of all the Federal Reserve Banks for their information:

"The Board of Governors of the Federal Reserve System wishes to deny a report printed in the Wall Street Journal of September 21 to the effect that Federal Reserve officials are contemplating some form of control of savings accounts. This report may be interpreted to mean that Federal Reserve officials are considering some interference with the individual's freedom to use his savings account. This is not true."

At this point, Messrs. Thurston and Goldenweiser left the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 19, 1942, were approved unanimously.

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

"In accordance with your request of September 17, 1942, the Board of Governors approves the change in your personnel classification plan involving the establishment of the position of Investigator (Page 103), Consumer Credit Department, with maximum annual salary of \$3,600, covering duties in connection with Regulation W - Consumer Credit."

Approved unanimously.

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Letter to the board of directors of the "Stockmen's Bank", Gillette, Wyoming, stating that, subject to conditions of membership numbered 1 to 3 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 Kansas City.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Stockmen's Bank', Gillette, Wyoming, 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 State Examiner for the State of Wyoming for his information.

"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 account listed on page 16 of the report of examination for membership, and that of reducing to within statutory limits the excess balance in a nonmember bank. It is noted that you have already written to the bank with reference to the fact that the number of directors fixed in the articles of incorporation is five while the number elected at the last annual meeting was nine and eight are now serving. Please advise us when this has received appropriate corrective action."

Letter to the Presidents of all the Federal Reserve Banks, prepared in accordance with the action taken at the meeting of the Board on September 18, 1942, and reading as follows:

"The Board of Governors has amended its Regulation A, effective immediately, by adding the following sentence at the end of subsection (h) of section 1 thereof:

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"The requirement of this section of the Regulation that a note, draft or bill of exchange be negotiable shall not be applicable with respect to any note, draft or bill of exchange evidencing a loan which is in whole or in part the subject of a guarantee or commitment by the War Department, Navy Department, or United States Maritime Commission pursuant to Executive Order No. 9112.'

Please have the necessary copies of the amendment printed for distribution in your district.

"In connection with notes evidencing loans guaranteed under Executive Order No. 9112, the question has been raised whether such a note which is otherwise eligible for discount or as collateral for advances by a Federal Reserve Bank under section 13 of the Federal Reserve Act is rendered ineligible by the fact that the note incorporates by reference the terms of the standard form of guarantee agreement used by the War Department, Navy Department and Maritime Commission, providing for suspension of maturity of a part or all of the guaranteed loan in the case of cancellation or termination of one-fourth or more of the borrower's war production contracts.

"Although by reason of this provision the note is subject to a contingency in which maturity may be suspended, the maturity stated on the face of the note will not be more than 90 days at the time of acquisition by the Federal Reserve Bank, and, pending the cancellations of one-fourth or more of the borrower's war production contracts, which may or may not occur in the future, the note will in all cases be payable at its expressed maturity. Accordingly, the Board is of the opinion that the fact that the suspension of maturity provisions of the standard form of guarantee agreement are incorporated in the note does not render it ineligible for discount or as collateral for advances by a Federal Reserve Bank under section 13 of the Federal Reserve Act. However, when cancellation or termination of one-fourth or more of the borrower's war production contracts in the manner indicated in the standard form of guarantee agreement has occurred, suspension of maturity is no longer dependent upon a contingency but may be effected merely at the will of the borrower and, accordingly, in the Board's opinion, such notes if then offered for discount may not be considered eligible. As a practical matter, if, when such notes are offered, the Federal Reserve Bank has reason to believe that cancellations in such amount are imminent, the notes should not be acquired by the Reserve Bank under section 13 of the Federal Reserve Act.

"Another question which has been raised in this connection is whether a note evidencing a loan guaranteed pursuant to Executive Order No. 9112 which is otherwise eligible for discount

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"by a Federal Reserve Bank is rendered ineligible by the fact that the note is issued under a revolving fund arrangement whereby the financing institution is obligated to extend credit up to a specified maximum amount over a specified period of months or years. Upon the maturity of the 90-day note the financing institution can be required by the borrower to lend the same amount for another 90 days, and the proceeds of the second note can be used to pay off the first. This commitment, however, does not affect the Federal Reserve Bank, and it is assumed that the Reserve Bank in discounting such note or accepting it as security for an advance will have no obligation or commitment to extend or renew the credit at maturity or to accept other notes in lieu thereof. The Federal Reserve Bank is, therefore, legally entitled to require payment at the end of the 90-day period. Accordingly, in the Board's opinion, the fact that such a note may be a part of a revolving fund arrangement of the kind described does not prevent its being eligible for discount or as security for an advance under section 13 of the Federal Reserve Act."

Approved unanimously, together with identical letters in the following form to The Honorable Robert P. Patterson, Under Secretary of War, The Honorable James V. Forrestal, Under Secretary of the Navy, and the United States Maritime Commission:

"As you know, Federal Reserve Banks in executing guarantees on behalf of the War Department, Navy Department or Maritime Commission pursuant to Executive Order No. 9112 act as fiscal agents of the United States. If and when they discount or accept as collateral for advances paper evidencing such guaranteed loans, they will, of course, be acting not as agents but in their own behalf and in accordance with the provisions of the Federal Reserve Act.

"Questions have been raised with the Board of Governors as to whether notes evidencing loans guaranteed pursuant to Executive Order No. 9112, which are otherwise eligible for discount or as collateral for advances by a Federal Reserve Bank under section 13 of the Federal Reserve Act, are rendered ineligible by provisions of the standard form of guarantee agreement or by the fact that the loans are made under a revolving fund agreement.

"There is enclosed herewith for your information a copy of a letter which the Board is addressing to the Presidents of all Federal Reserve Banks with reference to these questions. You will observe that the Board has amended its Regulation A so as to eliminate the requirement of negotiability with respect to paper guaranteed pursuant to Executive Order No. 9112 and has indicated its

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"view that the other questions raised do not affect the eligibility of notes evidencing guaranteed loans if such notes are otherwise eligible.

"It may be, therefore, that paper evidencing loans guaranteed under the Executive Order will be offered to the Federal Reserve Banks for discount or as security for advances and, if such paper is satisfactory to them, that they may accept it in accordance with the provisions of the Federal Reserve Act."

Letter to the Presidents of all the Federal Reserve Banks and to the Managing Directors of the Detroit and Los Angeles Branches, reading as follows:

"As you know, there has been increasing concern among businesses engaged in war production as to the risks involved in the renegotiation of war contracts by the Price Adjustment Boards of the Army, Navy, and Maritime Commission. Touching on this problem, there is sent to you herewith for your information a release dated August 10, 1942, of the War Department Price Adjustment Board, entitled 'Principles, Policy and Procedure to be Followed in Renegotiation'. Although the contents of this release were carried in recent circulars of the Commerce Clearing House Service and of Prentice-Hall, it may not have come to your attention. The enclosed release may be of assistance to you in answering inquiries that may arise in connection with negotiations for guarantees under Regulation V."

Approved unanimously.

Letter to Lieutenant Colonel Paul Cleveland, Chief of the Loan Section, Advance Payment and Loan Branch of the War Department, reading as follows:

"In accordance with your memorandum of September 10, 1942, regarding the cancellation of terminated guarantee agreements, there is transmitted herewith a copy of letter received from Mr. A. Phelan, Assistant Vice President, Federal Reserve Bank of New York, dated September 17, 1942, enclosing a list of guarantee agreements executed by the Federal Reserve Bank of New York on behalf of the War Department

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"under Executive Order 9112 which have been cancelled as the result of their termination, together with a copy of a form of notice of termination which is being used by the Federal Reserve Bank in this connection.

"You will note that the Federal Reserve Bank proposes to modify its form of termination notice by the addition of the sentence quoted in the last paragraph of Mr. Phelan's letter."

Approved unanimously.

Letter to Lieutenant Colonel Paul Cleveland, Chief of the Loan Section, Advance Payment and Loan Branch of the War Department, reading as follows:

"For your information there is transmitted herewith a copy of a letter received from Mr. R. B. Hays, Vice President and Secretary, Federal Reserve Bank of Cleveland, dated September 17, 1942, with reference to your memorandum of September 10, 1942, regarding the cancellation of guarantee agreements which have been terminated. Your attention is invited to the last paragraph of Mr. Hays' letter regarding the cancellation of copies of guarantee agreements which may have been given to borrowers."

Approved unanimously.

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

"Reference is made to our letter of September 15, 1942, regarding furniture and equipment to be used by the Reserve Banks in performing work for the War Department under Executive Order No. 9112.

"Advice has been received from the Federal Reserve Bank of Boston that it will be willing to waive the claim of \$72.75 included in their June voucher for reimbursement of the cost of certain furniture and equipment purchased. If you wish, therefore, this amount may be deducted from the Bank's June voucher - it will not be necessary to return the voucher."

Approved unanimously.

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

"Reference your letter September 18 concerning charge-send transactions under Regulation W. A draft of a possible amendment will be sent to the Reserve Banks for comment within a day or two. In view of this program there is no possibility of an amendment prior to the dates mentioned in your letter."

Approved unanimously.

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

"This is in reply to your letter of September 14, 1942 concerning an inquiry of Mr. R. J. Miller, Vice President and Comptroller of the Peoples Pittsburgh Trust Company, Pittsburgh, Pennsylvania, relative to the retention of records for the purpose of Regulation W.

"We have found this question unusually difficult. One of the principal questions is whether the Board should prescribe very specific rules with respect to keeping of records, describing them in some detail, or should rely on broad rules indicating the general nature of the records. Furthermore, would it be possible to lay down rules for any one type of business without any consideration of the rules to be prescribed for other businesses? Presumably it would be desirable to have some degree of uniformity. A third question is whether it would be wise to decide the matter prior to the time when the Banks have had a measure of experience under the enforcement program. Enforcement activities will tend to indicate the records which will be most useful in detecting violations.

"In order to start the exploration of this subject, we have written to all of the other Federal Reserve Banks asking for their opinions relative to the problem you have presented. Replies have been received from all but two of the Banks. One of the interesting questions raised is whether or not we should require the retention of the lender's application form which, while not directly related to the regulation, nevertheless often contains information of much use to the investigator.

"You will understand that we have regarded this whole problem as perhaps somewhat less pressing than others with which we have been faced, inasmuch as the regulation is now but one year old and it has not seemed to us that there would be a very large

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"volume of loans made under the regulation which have so far been paid up in full. We recognize that the storage problem is of considerable moment to the Registrants but are under the impression that most of them already preserve a substantial share of their records for some period of time subsequent to the payment of the obligations. In this connection, they are probably governed largely by State statutes with respect to limitation of actions.

"It may be that it will be desirable to devote a few minutes to this subject at the meeting at Philadelphia on September 24."

Approved unanimously.

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

"Thank you very much for your letter of September 8 forwarding a copy of a letter which you received from Mr. Joseph E. Dryer, of San Diego, and a copy of your reply to him.

"We are also glad to know, of course, that Mr. Dryer is in agreement with the intent and purpose of Regulation W and has encountered a favorable attitude among the public. As to his suggestion with respect to the extension of credit to persons subject to military service, the Board is in agreement with the answer that you gave to him."

Approved unanimously.

Letter to Mr. Ashley, Assistant Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of September 11 regarding the proposed discontinuance of the position of Federal Reserve Agent's Representative at the El Paso Branch.

"The proposed arrangement is similar to that in effect at a number of Federal Reserve Bank branches and meets with the Board's approval, with the exception that it is not believed desirable that the 1928 series Federal Reserve notes be issued to the branch. Instead, it is suggested that consideration be given to an arrangement for holding these notes temporarily under dual control of an officer of the branch and of the Federal Reserve Agent and Assistant Federal Reserve Agent along the general lines of the agreement regarding custody of unissued Federal Reserve notes at a Federal Reserve Branch bank appearing on pages 2064 and 2065 of the Federal Reserve Loose-Leaf Service."

Approved unanimously.

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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 denominations and amounts stated for the following Federal Reserve Banks:

	<u>Denom- ination</u>	<u>Number of sheets</u>	<u>Amount</u>
New York	\$ 5	1,750,000	\$105,000,000
Philadelphia	5	750,000	45,000,000
Richmond	50	60,000	36,000,000
Atlanta	5	1,000,000	60,000,000"

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Donald Hanson  
Vice Chairman.