

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 8, 1942, at 2:00 p.m.

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

Mr. Morrill, 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 October 7, 1942, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the executive committee of the Federal Advisory Council held on October 7, 1942, were approved unanimously.

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

"As requested in your letter of September 29, 1942, the Board of Governors approves for a further period of six months, the temporary employment of Messrs. Raynor D. Howell, Moyland J. Macdonell, and Frederick W. Ingalls, as Field Representatives, each at an annual salary of \$3,000, for duties in connection with the issuance of United States War Savings Bonds."

Approved unanimously.

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

"As requested in your letter of September 29, 1942, the Board approves the payment of an amount equal to one year's salary, \$1,800, to the Retirement System for the

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"purpose of supplementing the retirement allowance to which Mr. Isidore Streck, Jr., an employee of your Bank, will be entitled on his retirement October 1, 1942."

Approved unanimously.

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

"In accordance with the request contained in your letter of October 2, 1942, the Board approves the appointment, effective November 1, 1942, of Thomas Victor Varnedoe as an assistant examiner for the Federal Reserve Bank of Atlanta."

Approved unanimously.

Letter to Mr. Nardin, Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the recommendation contained in Mr. Parker's letter of October 2, 1942, the Board of Governors approves the payment of a salary to Mr. Alfred C. Kearschner, Alternate Assistant Federal Reserve Agent, at the Head Office, at the rate of \$1,800 per annum, effective October 1, 1942."

Approved unanimously.

Letter to Mr. Grady, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of September 18, 1942, the Board of Governors approves the appointment of Mr. Philip M. Stone as Alternate Assistant Federal Reserve Agent at your Bank at his present salary of \$200 per month, with the understanding that he will be placed upon the Agent's payroll and will be solely responsible to you, or, during a vacancy in the office of Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval

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"of the Federal Reserve Agent, or during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"This approval is given with the understanding that Mr. G. A. Snow will resign as of the date Mr. Stone's appointment becomes effective, and Mr. Stone should not enter upon the performance of his duties as Alternate Assistant Federal Reserve Agent until his bond has been examined by your counsel to determine whether its execution complies fully with the rules printed on the reverse side thereof.

"Please advise the effective date of Mr. Stone's appointment and as to the action, if any, we should take with respect to releasing the bonding company from liability for any acts committed by Mr. Snow subsequent to the termination of his duties as Alternate Assistant Federal Reserve Agent, together with the actual date of termination of such duties.

"It is noted that the usual forms of oath of office, bond, and signature card will be forwarded to the Board."

Approved unanimously.

Letter to Mr. C. H. Pope, President of The Munsey Trust Company, Washington, D. C., reading as follows:

"This refers to your letter of August 28, 1942, to the Federal Reserve Bank of Richmond relating to the status of C. W. H. Corporation, New York, New York, as a holding company affiliate of your bank; and to information subsequently furnished to the Reserve Bank concerning bank stock held by C. W. H. Corporation.

"The Board understands that C. W. H. Corporation owns or controls 10,001 of the 20,000 outstanding shares of stock of The Munsey Trust Company but does not own or control any stock of, or manage or control, any other banking institution. In view of these facts, the Board has determined that C. W. H. Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and, accordingly, C. W. H. Corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

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"If, however, C. W. H. Corporation should at any time own or control a substantial portion of the stock of, or manage or control, more than one banking institution, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

Approved unanimously, for transmission through the Federal Reserve Bank of Richmond.

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

"Reference is made to your letter of October 1, 1942, and enclosures, with respect to the absorption of The Telegraphers National Bank of St. Louis, St. Louis, Missouri, by the United Bank and Trust Company, St. Louis, Missouri, as of August 31, 1942.

"On the basis of the information submitted, the Board concurs in the opinion of the Reserve Bank that the transfer of assets and deposits to the State member bank by the national bank has not resulted in any change in the general character of the assets of the United Bank and Trust Company or the scope of its powers within the meaning of condition of membership numbered 3 to which the State member bank is subject. The Board, therefore, will interpose no objection to the transaction under the condition of membership."

Approved unanimously.

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

"Reference is made to your letter of September 8, 1942, in regard to the recent assumption of fiduciary activities by 'The Lake State Bank', Richland, Indiana, revealed by the examination of the bank made as of July 20, 1942.

"It appears that the bank, which was not exercising its trust powers at the time of its admission to membership in 1940 and is not subject to the Board's standard trust conditions, has qualified as executor of the estate of a former director and is now acting in that capacity without first having obtained the permission of the Board as required by the terms of its condition of membership numbered 1.

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"In view of the circumstances as stated in your letter the Board will not object to the bank's continuing to administer the one executorship it now holds, with the understanding that it will not acquire any other fiduciary business without first obtaining the permission of the Board. Please advise the bank accordingly."

Approved unanimously.

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

"In connection with the execution of guarantee agreements pursuant to Executive Order No. 9112, a question recently arose at one of the Federal Reserve Banks as to whether mortgages may be taken as security for guaranteed loans where there is a possibility of conflict between the Government's rights under section 14 of the standard supply contract and the rights of the financing institution under the mortgage. The question was referred to the War Department by the Board of Governors, and the Board has now received a memorandum from the War Department dated October 5, 1942, containing the following statement of the War Department's views with respect to this question:

"'2. It is not contrary to the policy of the War Department for mortgages to be taken on materials purchased with the proceeds of a guaranteed loan provided that assignment of the contract is also taken as security. Payments under Article 14 would thus flow to the Bank in full or partial satisfaction of the mortgage. If such payments did not constitute full satisfaction nevertheless the mortgagee should have the right to foreclose. If the Government desires to protect itself from the so-called "spreader" clause to be inserted in new guarantee agreements it would have to exercise its right of taking over the loan under Section 7 of the guarantee agreement.

"'3. In the normal case, it is believed that any conflict that may exist can be ironed out by negotiations.

"'4. Nothing in the above is intended to indicate that mortgages should be taken as a general practice. In cases other than that of weak contractors the War Department in general prefers open lines of credit secured only by assignments of contracts and the usual covenants in loan

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"agreements or by covenants to assign at the demand of the guarantor in the case of larger credits to sound concerns where because of the number of contracts and purchase orders involved assignment is administratively cumbersome."

Approved unanimously.

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

"This refers to your letter of September 24, 1942, raising certain questions regarding the interpretation of General Order No. 54 Revised, which was issued by the United States Maritime Commission, under date of August 25, 1942, and transmitted to you with the Board's letter of September 19, 1942 (S-553).

"With respect to your first question, it is our understanding, based upon informal advice received from the Maritime Commission, that the words 'with respect to guarantees not in excess of One Hundred Thousand Dollars (\$100,000) for any one loan', contained in paragraph 1 of the General Order in question, have reference to the amount of the guarantee rather than to the amount of the loan. In other words, the Director and Assistant Directors of Finance are authorized to make delegations of authority to other officers and employees of the Commission with respect to guaranteed loans where the amount of the guarantee does not exceed \$100,000, irrespective of the amount of the loan; except that, as hereafter noted, the amount of the loan may not exceed \$250,000. The limitation refers to the individual loan, and accordingly, permits the issuance of guarantees with respect to several loans to the same borrower where each loan is guaranteed not more than ninety per cent, and where the amount of the guarantee in each instance is not more than \$100,000.

"On the other hand, the language of the proviso requiring the approval of the Maritime Commission for guarantees of loans in excess of \$250,000 refers to the amount of the loan and not to the amount of the guarantee. This proviso makes it necessary to obtain the approval of the Commission in any case in which the amount of the loan to be guaranteed is in excess of \$250,000. The Director or Assistant Directors of Finance may delegate to other officers of the Commission authority to approve guarantees of loans in amounts of \$250,000 or less, where the amount

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"of the guarantee does not exceed \$100,000; and such guarantees may be executed by the Federal Reserve Bank without submitting the matter to any officer or agent of the Maritime Commission for prior approval, subject of course to the requirements of the Commission's instructions of May 7, 1942, and provided the usual production certificate is obtained. Where the amount of the guarantee exceeds \$100,000, the guarantee must be submitted to Washington for approval by the Director or Assistant Directors of Finance or, if the amount of the loan exceeds \$250,000, for the approval of the Commission.

"Paragraph (c) of the proviso, requiring the approval of the Maritime Commission for 'purchase orders and all other contracts of whatsoever type providing for an advance payment by the Commission', is not intended to require that a guarantee must first be submitted to Washington for the Maritime Commission's approval merely because the borrower has received an advance payment from the Commission. However, it is understood that the Maritime Commission must hereafter approve any new advance payment made by the Commission to the borrower."

Approved unanimously, together with a letter to the Presidents of all the Federal Reserve Banks transmitting copies of the incoming letter, the above reply, and a letter received from the United States Maritime Commission affirming the correctness of the Board's reply.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City made as of July 6, 1942, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was furnished President Leedy.

"The Board will appreciate advice that the report has been considered by the board of directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated. In this latter connection, comment is made on page 17 of the report of examination with respect to the embezzlement by an employee of the Post Office station in the bank that

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"the operations of the Registered Mail Division, as well as the Post Office station, were under study by the bank with a view to providing adequate safeguards and a satisfactory separation."

Approved unanimously.

Letter to Mr. E. W. Rossiter, Chairman of the Committee on Competing Lending Agencies of the Nebraska Bankers Association, Hartington, Nebraska, reading as follows:

"Receipt is acknowledged of your letter of September 26 enclosing a copy of the resolution of the Committee on Competing Lending Agencies of the Nebraska Bankers Association. We have read the letter and resolution with interest.

"You are doubtless aware that we had similar correspondence on this subject last year with Mr. William B. Hughes, Secretary of your Association. We find ourselves at a loss for anything more constructive to say than what we said to him and have said to others who have written us on the same subject; for it is not clear that the matter is one upon which the Board can take a position. Congress has not given the Board any jurisdiction over the production credit system, nor is it apparent that the Board has any more reason to interfere in the supervision of production credit associations than it would have to interfere with the supervision of numerous other institutions that compete with member banks of the Federal Reserve System. The subject of conflict and duplication in the field of bank supervision was discussed in the Board's Annual Report for 1938, a reprint of excerpts from which is enclosed."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Marie
Secretary.

Approved:

W. S. Lewis
Chairman.