

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 12, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
 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 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 10, 1942, were approved unanimously.

Letter to the board of directors of the "St. Michaels Bank", St. Michaels, Maryland, 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 Richmond.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'St. Michaels Bank', St. Michaels, Maryland, 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 Maryland for his information.

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"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It has been noted, however, that the management intends to charge off the amount so classified and it is assumed that this will be done.

"It is assumed also that you will follow the matter of the bank's reducing to within statutory limits the excess balance in a nonmember bank and that of 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."

Letter to the board of directors of "The First State Bank", Rockwall, Texas, 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 Dallas.

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

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

"This refers to your letter of September 21, 1942, and its enclosure, in reply to the Board's letter of September 12, 1942, relating to the disposal by Melvin F. Lanphar of 100 shares of the stock of The Romeo Savings Bank, Romeo, Michigan, previously owned by him and the question whether the transaction was such as to terminate the affiliate relationships between the bank and Melvin F. Lanphar and Company and Lanphar Agency, Incorporated.

"It has been noted that Mr. Chalfont, Managing Director of your bank's Detroit Branch, discussed this matter with Mr. Lanphar and that, in a letter of September 17, 1942, the latter advised your bank that he disposed of the 100 shares of stock of The Romeo Savings Bank by sale to his wife for \$10,000 and that she paid him for the stock

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"with her own money. Mr. Lanphar also stated that Mrs. Lanphar owned no stock of Melvin F. Lanphar and Company or Lanphar Agency, Incorporated, and asserted that neither company could be considered to be an affiliate of the bank.

"It is assumed that, in the light of Mr. Chalfont's conversation with Mr. Lanphar and the latter's letter, you are satisfied that the sale of the bank stock was a bona fide transaction. Further, it is understood that, in discussing this matter with members of the Board's staff in Philadelphia recently, Mr. Diercks indicated that, despite the doubts which naturally arise with respect to whether there has been any change in the control of the stock, he feels that there is nothing more that can be done about the matter at this time.

"In the circumstances, without now ruling on the question whether the affiliate relationships have been technically terminated, the Board will not insist upon the bank's reporting Melvin F. Lanphar and Company and Lanphar Agency, Incorporated, as affiliates until receipt of further information bearing on the question whether affiliate relationships exist. Any such additional information which may be available should be obtained, of course, in connection with future examinations of the bank.

"Because of the doubts as to whether there has been a substantial change in the relationships, the Board believes that, with the view of complying fully with the spirit and purposes of section 23A of the Federal Reserve Act, the bank should make only such extensions of credit to Melvin F. Lanphar and Company and Lanphar Agency, Incorporated as it is permitted to make to affiliates; and you are requested to take such action as you deem appropriate to obtain the adoption of such a policy by the bank."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks,

reading as follows:

"There are enclosed photostats of letters received from the War Department and the Navy Department addressed to all Federal Reserve Banks, both dated October 9, 1942, regarding the insertion of certain special conditions in guarantee agreements executed pursuant to Executive Order No. 9112. We have in our records the special conditions enclosed with the above-mentioned letters from the War

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"Department and the Navy Department duly authenticated by Lieutenant Colonel Paul Cleveland of the War Department and Mr. S. A. Mitchell of the Navy Department. It will be observed that the special conditions enclosed with the War Department's letter are identical with those enclosed with the Navy Department's letter. It is understood that similar conditions are under consideration by the United States Maritime Commission.

"As indicated in the enclosed letters, consideration is now being given to a revision of the standard form of guarantee agreement dated May 14, 1942. Accordingly, it will be appreciated if you will submit to the Board, not later than October 31, 1942, such suggestions as you may have, in the light of your experience in this connection, for the clarification and improvement of the standard form of guarantee agreement, including any suggestions you may have regarding the new special conditions which have been authorized for inclusion by the enclosed letters from the Services. It will be very helpful to us if you will suggest specific language to carry out your suggestions wherever this is practicable."

Approved unanimously.

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

"This refers to your letter of September 17, 1942, requesting advice on a statement regarding the effect of Regulation W on charge accounts of husbands and wives appearing on page 4 of the September 8, 1942 bulletin of the National Retail Furniture Association, which you enclosed with your letter. As having a bearing upon such statement, you also enclosed a copy of your letter of August 10, 1942, to Mr. H. C. Bush of the Credit Reference and Reporting Company, Des Moines, Iowa. The aforementioned statement reads as follows:

'If a man and wife have incomes independent of each other, it is possible for the charge account of one to be frozen under Regulation W, without freezing that of the other. Likewise, under above income conditions, John Smith's charge account may be frozen, and Mrs. John Smith may open another at same store. But, if husband and wife have joint income, freezing of John Smith account also freezes Mrs. John Smith account, and she may not open another.'

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"Since there are so many possible combinations of facts in cases of this kind which may arise, the statement of general rules is difficult and may, in fact, be misleading. Thus, the first two sentences of the foregoing statement would be unobjectionable only if it is assumed that the accounts of the husband and wife are, in fact, separate accounts, neither being permitted to charge items in the account of the other. If the accounts are not in fact separate, one spouse being permitted to use the account of the other, then the freezing of one would freeze the other, and the freezing of the account of one spouse would prevent the opening of an account for the other since, as indicated in your letter to Mr. Bush, a contrary conclusion would open the way to evasion of the requirements of the Regulation, in violation of section 11(a).

"The use of the expression 'joint income' in the third sentence is not entirely clear; but, in the circumstances, it is assumed that such sentence has reference to the case where the family income is earned by one spouse but employed for the use of both. The Board, on a previous occasion, said that if the store knows that it could expect payment from only one member of the family, and permits the family to open an account in the name of another member each time the account of the preceding member goes into default, there would obviously be an arrangement designed to permit payment on conditions inconsistent with the requirement of the Regulation, in violation of section 11(a)."

Approved unanimously.

Letter to Mr. S. F. D. Meffley, Special Representative of the Recording & Statistical Corporation, Chicago, Illinois, reading as follows:

"This is in reply to your letter of October 5, enclosing two 'tear sheets' from the September Official Automobile Guide Price Edition. We are unable to see anything in these sheets that is in contravention of the conditions set forth in the Board's letter of July 15 notifying you of the designation of this publication for purposes of Regulation W.

"It would seem preferable for you to say that the publication 'is among those designated' instead of saying 'is designated' by the Board of Governors of the Federal Reserve System. Also, since Regulation W has been amended, effective May 6, 1942, so as to eliminate the reference to used cars

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"which a borrower has owned for less than 45 days, you might either strike out your reference to this point or, in the alternative, change the paragraph to some such language as 'These rules do not apply to trucks and trailers, and loans on used cars which are not for the purpose of purchasing such cars.' Also, since it appears that your publication, the 'Official Automobile Guide', is issued in several editions, you should perhaps make it clear that it is only your 'Price Edition' to which the Board's designation is applicable.

"You will understand that the foregoing changes are merely suggested for your consideration and are not requirements of the Board.

"We have also noted a typographical error in the last line of the second paragraph on page 15, which reads 'for' instead of 'from'."

Approved unanimously.

Upon recommendation by Mr. Draper, the Board authorized the payment of the cost of making a stenographic record of the three-day conference to be held in Washington next week of representatives of the Federal Reserve Banks, the Board of Governors, and the services on matters arising under Executive Order No. 9112, it being understood that the amount involved would be added to the appropriate item in the current budget of the Board.

Thereupon the meeting adjourned.

Chesler Mowbray
Secretary.

Approved:

W. C. C. C.
Chairman.