

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 28, 1942, at 1:45 p.m.

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

Mr. Morrill, 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 October 27, 1942, were approved unanimously.

Bond in the amount of \$10,000, executed under date of October 19, 1942, by Philip M. Stone as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco.

Approved unanimously.

Memorandum dated October 23, 1942, from Mr. Clayton, recommending that the salary of Miss Julia Godwin, his secretary, be increased from \$1,800 to \$2,000 per annum, effective November 1, 1942.

Approved unanimously.

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

"Regulation of Director of Economic Stabilization relating to wages and salaries referred to in today's press is apparently applicable to Federal Reserve Banks and salary increases of officers and employees of Federal Reserve Banks are therefore subject to such regulation and such additional regulations as may be

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"issued by the National War Labor Board and the Secretary of the Treasury. So far as we know no additional regulations have as yet been issued by these agencies. National War Labor Board given jurisdiction over all wages and over all salary payments not in excess of \$5,000 where employee is represented by a recognized or certified labor organization or where the employee is not employed in a bona fide executive, administrative or professional capacity. All other salaries come under the jurisdiction of the Treasury. Full text of regulation too long to transmit by wire but section 4010.7 reads as follows:

'Salary increases. -- In the case of a salary rate of \$5,000 or less per annum existing on the date of the approval of these regulations by the President and in the case of a salary rate of more than \$5,000 per annum existing on October 3, 1942, no increase shall be made by the employer except as provided in regulations, rulings, or orders promulgated under the authority of these regulations. Except as herein provided, any increase made after such respective dates shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder from the date of the payment if such increase is made prior to the approval of the Board or the Commissioner, as the case may be.

'In the case, however, of an increase made in accordance with the terms of a salary agreement or salary rate schedule and as a result of

'(a) individual promotions or reclassifications,
'(b) individual merit increases within established salary rate ranges,

'(c) operation of an established plan of salary increases based on length of service,

'(d) increased productivity under incentive plans,

'(e) operation of a trainee system, or

'(f) such other reasons or circumstances as may be prescribed in orders, rulings, or regulations, promulgated under the authority of these regulations, no prior approval of the Board or the Commissioner is required. No such increase shall result in any substantial increase of the level of costs or shall furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.'

"Full text of regulation will appear in Thursday October 29 issue of Federal Register."

Approved unanimously.

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Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"As requested in your letter of October 24, 1942, Board approves salary at rate of \$8,500 per annum for Dr. Arthur Reinhold Upgren from date of commencement of his service as Vice President and Economist of Reserve Bank to May 31, 1943, inclusive.

Approved unanimously.

Letter to the board of directors of the "Bruceton Bank", Bruceton Mills, West Virginia, 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, for transmission through the Federal Reserve Bank of Richmond.

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

"Reference is made to your letter of October 21 addressed to Mr. Paulger regarding 'The Peoples Trust Company', Martinsburg, West Virginia.

"It has been noted that the affairs of the bank were discussed at a meeting of the officers of the Reserve Bank a few days ago and that it was the general feeling that the present management either cannot or will not enforce collection of the many undesirable loans of long standing and that a change in management is essential. Insofar as the management is concerned, this more or less confirms the conclusions reached when you were in the Board's offices recently and discussed this case with the Division of Examinations. However, in view of the frozen condition of a large volume of the bank's loans and since it is apparently agreed that there are too many banks in Martinsburg, it would seem that the logical solution to the problem would be a merger with one of the other local banks. At any rate, to bring about the necessary corrections in this situation will no doubt require some positive supervisory efforts and since present conditions are conducive to working out troublesome cases, those efforts should, of course, not be delayed.

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"During your recent visit the question whether the bank had been complying with the provisions of condition of membership numbered 10, which provides that it exercise all powers with due regard to the safety of its customers, was discussed and it is assumed that you will give that point further consideration.

"On the same day your letter was received the Board received a letter dated October 20 from Chairman Crowley expressing the concern of the Federal Deposit Insurance Corporation over the condition of The Peoples Trust Company and renewing the request to conduct an examination of the bank. The original request of the Federal Deposit Insurance Corporation for permission to examine the bank was made in 1939, but was later withdrawn, after discussing the case with members of the Board's staff, in expectation of adequate improvements being made in the condition of the bank.

"The Board is granting permission to the Federal Deposit Insurance Corporation to conduct an examination of the bank jointly with examiners for the Federal Reserve Bank of Richmond and it is suggested that you arrange with the supervising examiner for the Federal Deposit Insurance Corporation to conduct the examination within the near future. Copies of Chairman Crowley's letter and of the Board's reply are enclosed herewith for your information."

Approved unanimously, together with
the following letter to Honorable Leo T.
Crowley, Chairman of the Federal Deposit
Insurance Corporation:

"This is in reply to your letter of October 20, 1942, expressing your concern with respect to the condition of The Peoples Trust Company, Martinsburg, West Virginia, and the uncertainties surrounding a large portion of its assets.

"We have also been concerned for some time with the condition of this institution. In view of the fact that some years ago the stockholders of the bank voluntarily paid an assessment of 100 per cent on the capital stock, it was felt that the management should be given every opportunity to work the situation out. Officers of the Reserve Bank have conferred with representatives of the bank on a number of occasions and the case has been discussed directly and by correspondence between the Reserve Bank and members of the Board's staff in an effort to accelerate improvement in the condition of the bank. Accomplishments, however, have been disappointing on the whole.

"Mr. R. W. Mercer, Vice President in charge of examinations at the Federal Reserve Bank of Richmond, visited the Board's offices the latter part of last month and discussed with members of the staff the condition of The Peoples Trust Company and the

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"apparently overbanked condition in Martinsburg. Mr. Mercer has since advised that it is the general feeling of the officers of the Reserve Bank that the present management of the bank either cannot or will not enforce collection of the many undesirable loans of long standing and that a change in management is essential. It was agreed during the discussion with Mr. Mercer that an examination of the bank would be made within the near future and that at that time some definite action with a view to a solution of the problem would be undertaken.

"Inasmuch as it is contemplated that an examination of the institution will be conducted by examiners for the Federal Reserve Bank of Richmond within the reasonably near future and in accordance with your request, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of The Peoples Trust Company, Martinsburg, West Virginia, jointly with examiners for the Federal Reserve Bank of Richmond at the time of their next regular examination. A copy of the Board's letter to the Reserve Bank regarding the proposed joint examination is enclosed for your information."

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

"This refers to your letter of October 6, 1942, with further reference to the application of section 32 of the Banking Act of 1933 to the North American Investment Corporation and the Commonwealth Investment Company.

"The Board's letter, S-556, dated September 22, 1942, applies to the Commonwealth Investment Company since admittedly that company is an open-end investment company.

"Careful consideration has been given to the argument presented in the enclosures to your letter of June 20, 1941, to the effect that section 32 of the Banking Act of 1933 has no application to the North American Investment Corporation. There is nothing in that argument, however, which warrants a change in the views expressed in the Board's letter of May 26, 1941, unless you or Counsel for your Bank is of the opinion that the situation with respect to the North American Investment Corporation has since changed so as to warrant further reconsideration of the matter."

Approved unanimously.

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Letter to the officers in charge of the administration of Regulation W at all the Federal Reserve Banks, reading as follows:

"Enclosed are three copies of a summary of the discussion of problems arising in connection with the enforcement of Regulation W which took place at the Conference of Examiners in Philadelphia on September 24. The consensus and the views expressed by Mr. Dreibelbis as reported in the summary are in harmony with the views of the Board."

Approved unanimously.

Letter to Mr. Robert S. Caviness, Office of the General Counsel of the National Housing Agency, reading as follows:

"This is in reply to your letter of October 13, 1942 addressed to Mr. Bonnar Brown with reference to your proposed revision of Administrator's Order No. 8, delegating authority for designation of 'defense housing' projects for purposes of Regulation W.

"Because this matter has been of considerable interest to several of the Federal Reserve Banks, we have consulted with them before sending our comments to you.

"One of the Federal Reserve Banks felt that there was considerable confusion as to the exact extent of the defense housing critical areas, particularly in respect of the suburbs surrounding a designated city. It was suggested that it would be helpful if this matter could be clarified. The Federal Reserve Bank also asked if some arrangement could be made whereby they could receive information promptly as to the changes in the list of designated areas.

"Attached is a memorandum covering suggested changes in the Administrator's Order and the application form. We believe that they will be self-explanatory. We have been concerned, as you have, about the widespread reports of undesirable practices in this field. Several of our suggestions are designed to tighten up the procedure.

"We recognize that in the final analysis a decision as to whether or not a proposed repair is necessary if a housing accommodation is not to become uninhabitable is a matter of judgment which is being left to be determined by a party in interest. On the other hand, we see the practical difficulties of having every project approved by a Government agency such as the National Housing Agency or one of its divisions. Under the circumstances, we agree that a further trial of the 'creditor approval' method is in order, but we hope that some plan can be devised for determining whether or not it is operating satisfactorily.

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"It is assumed that you will distribute copies of the new Order and form to all of the Federal Housing Authority offices and to the Title I lending institutions which have qualified for insurance. We find that the Federal Reserve Banks receive requests for information on this subject from time to time and we should like to have 3,000 copies of the Order and form for distribution to the Federal Reserve Banks. It would be appreciated if you could arrange to let us have these copies in sufficient time so they may be received by the Federal Reserve Banks before the revised order becomes effective."

Approved unanimously.

Letter to Mr. William Wagner, Executive Secretary of the National Association of Credit Jewelers, New York, New York, reading as follows:

"Your letter of October 22, 1942 asked that the name of your Association be put on our mailing list to receive information relative to Regulation W.

"The administration of the regulation has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches, and we do not maintain a mailing list for this purpose in Washington. Consequently, we are asking the Federal Reserve Bank of New York to put the name of the Association on its mailing list.

"We have duly noted your request that in the future your Association be given an opportunity to be heard on matters that pertain to instalment sales of jewelry and allied merchandise. This would be nothing new, of course, as representatives of your Association have in fact been heard once or twice already, at their request, on appropriate occasion. You will understand, however, that according to the established practice of the Board consultation with the trade concerning changes in Regulation W is handled in the main by and through the several Federal Reserve Banks, and with this fact in mind you will be interested in maintaining close relations yourself with the Federal Reserve Bank of New York and advising your members to maintain close relations with the Federal Reserve Banks of their respective districts."

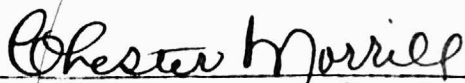
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



Chairman.



Secretary.