

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 4, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
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 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 November 3, 1942, were approved unanimously.

Memorandum dated October 30, 1942, from Mr. Morrill, submitting the resignation of Mrs. Alene D. Carroll as a charwoman in the Secretary's Office, to become effective as of the close of business on November 18, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter prepared for the signature of Chairman Eccles to Local Draft Board No. 3, Chevy Chase, Maryland, reading as follows:

"Enclosed is Form 42 which I have executed with respect to Leroy M. Piser, Chief of the Government Securities Section of the Board of Governors of the Federal Reserve System.

"As indicated in the attached statement of his duties and responsibilities, Mr. Piser is one of the key men in the Board's organization, performing an essential service to the Board, a truly necessary man in the Board's organization.

"I trust that the request for occupational deferment will be granted."

Approved unanimously.

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Memorandum dated October 31, 1942, from Mr. Bethea, referring to the amendment of certain provisions of the Standardized Government Travel Regulations, and recommending, for the reasons stated in the memorandum, (1) that no changes be made in the Board's travel regulations by reason of the amendment of paragraph 13 of the Standardized Government Travel Regulations, and (2) that the Board authorize (a) the elimination of the Jurat from expense vouchers used in the future by persons traveling on official business of the Board and (b) the use, as soon as forms can be printed, of a voucher in the form attached to the memorandum containing a simple "Certificate of Claimant".

Approved unanimously.

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

"We are advised that the office of the Commissioner of Internal Revenue and the National War Labor Board are working earnestly to issue, as soon as practicable, the additional regulations covering increases in salaries and wages within their respective jurisdictions as contemplated by the regulations issued by the Director of Economic Stabilization and approved by the President on October 27, 1942. It is not entirely clear from the regulations of the Director of Economic Stabilization just how far Federal Reserve Banks may go in increasing compensation of their employees and a number of questions which have arisen thereunder can not be determined at this time.

"The two agencies just referred to have not yet set up organizations to handle interpretations but it is believed that with the issuance of additional regulations, many questions will be clarified.

"In the meantime the Board believes that the existing order and regulations prohibit any revision of the existing classification plan for any particular Federal Reserve Bank for the purpose of effecting an increase in the maximum salary rate for any group of employees but it interprets the order and regulations as permitting individual salary adjustments within the

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"maximum rates for the applicable grades in accordance with the classification plan as established for each Federal Reserve Bank prior to the effective date of the regulations and also to the extent of the maximum rates of supplemental compensation or allowance which had been authorized by the Board prior to that date. In the circumstances the Board feels that each Federal Reserve Bank, pending the issuance of the additional regulations and such rulings as may hereafter be made, should use its best judgment in the exercise of good faith as to what salary adjustments may properly be made under the terms of the executive order.

"We appreciate the unsatisfactory situation now existing regarding this matter and will advise you promptly of any developments."

Approved unanimously.

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

"Reference is made to your letter of October 28, 1942, submitting the request of the 'Wilmington Trust Company', Wilmington, Delaware, for approval of the proposed purchase of acceptable assets and assumption of deposit liabilities of the Union National Bank of Wilmington, Wilmington, Delaware.

"The Board understands that the assets to be acquired by the trust company are to be approved by an examiner for the Reserve Bank and that counsel for the Reserve Bank is to be satisfied as to the legal aspects of the transaction. It appears, further, that completion of the transaction will not cause a change in the general character of the assets of or broadening in the functions now exercised by the trust company within the meaning of the condition of membership to which it is subject. In the circumstances, the Board will interpose no objection to the consummation of the transaction as proposed."

Approved unanimously.

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

"The Board has received several inquiries regarding the retention by Registrants of records and papers relating to credits within the scope of the Executive Order of August 9, 1941, and

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"Regulation W. These inquiries concern the records and papers which should be preserved and the date when they may be destroyed, and bring into question what action the Board expects to take under sections 12(h) and 12(i) of the Regulation and the sufficiency of those sections in their present form.

"In studying this matter, consideration was given to the preparation of a letter to all Federal Reserve Banks setting forth a general rule sufficiently flexible to cover all of the many classes of businesses affected, since it was deemed inadvisable to attempt to specify in detail all of the records and papers that should be preserved. However, the disposition of this problem and the security of the enforcement program in general made it appear desirable that sections 12(h) and 12(i) be amended. Accordingly, there is enclosed herewith a proposed Amendment No. 10 to the Regulation on which the Board would like your views and comments. Your promptness in forwarding replies will be much appreciated.

"Briefly, you will note that the proposed section 12(h) prescribes a general rule requiring every Registrant to preserve, for a period of two years after the date of the last payment received on any credit within the scope of the Executive Order, such records and papers as are relevant to establishing whether or not the credit was in conformity with the Regulation. The two-year period, which is new, conforms with a similar requirement in the small loan laws of many States and would seem to be adequate for an effective enforcement program. Otherwise, such general rule merely clarifies what may be regarded as the substance, in this connection, of present sections 12(h) and 12(i).

"The proposed section 12(i) retains the provision now in section 12(h) for such statistical reports as the Board may call for. In addition, however, such proposal spells out in more detail than present section 12(i) the Registrant's obligation to permit inspections of his business operations, including his records and papers, by representatives of the Board or the Federal Reserve Banks, and the Board's authority to require testimony and the production of records and papers in determining whether or not a Registrant has complied with the provisions of the Regulation."

Approved unanimously.

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

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"This refers to your letter of October 13, 1942, enclosing two problems regarding the application of Regulation W on which you requested the Board's advice. The first problem has been answered by the Board's letter to you of November 3, 1942.

"Your second problem concerns the right, under the Regulation, of a finance company to purchase or discount and receive payments upon a note executed to a vendor pursuant to section 10(a)(2) and extending the maturity of an instalment sale indebtedness that has become delinquent, if the extended terms are such as would not have been permissible under the Regulation in the first instance.

"The Board agrees with your view that section 3(a)(3) would not prevent such action by the finance company, the note being one which is expressly authorized by the Regulation.

"The Board has also, in accordance with your suggestion, reconsidered its letter to your bank of December 30, 1941, relating to a case in which a finance company makes a direct loan to a debtor to retire his instalment indebtedness to another creditor, where the maturity of such indebtedness has already been extended under section 10(a)(2) by the first creditor for his own protection. The Board has now determined that the finance company is permitted to make the loan, repayment to be on the same terms as are scheduled for the obligation being retired. The obligation subject to section 10(a)(2) is a regulated instalment credit; and section 10(c), in substance, provides that a lender, in making a loan to retire a regulated instalment credit, may extend terms as liberal as, but not more liberal than, those which are permissible for the instalment credit being retired. Thus, the maturity of the loan by the finance company could be the same as that of the obligation being retired.

"This view is not inconsistent with the second paragraph of W-118, referred to in the aforementioned letter of December 30, 1941, since that interpretation relates only to a loan to retire a credit not covered by the Regulation.

"As a part of your second problem, you also ask whether a finance company may make a revision under section 10(a)(2) on terms not initially permissible, after it purchases or discounts a delinquent instalment obligation and has exerted a bona fide collection effort. The Board agrees that this may be done, but it should be emphasized that the change in ownership of the paper does not change the responsibility of the holder to make every effort to collect it in accordance with its terms. Furthermore, the revision must not be made on terms longer than are necessary in good faith for the finance company's own protection.

"The theory of section 10(a)(2) is that an adjustment with the customer should not be prevented if that is the only feasible way in which the credit can be collected. Any such adjustment

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"must be the last resort (except, of course, litigation) and a measure to be taken only after other means of collection have been exhausted.

"Each of the foregoing points with respect to section 10(a)(2) is consistent with the principle of that section, namely, that it may be applied only for the protection of the Registrant who holds the obligation which is in default. If section 10(a)(2) is applied in accordance with the principles herein expressed, it is not believed that any undue weakening of the Regulation will result. On the other hand, if you should encounter any evidence suggesting that Registrants may be using this section improperly, we shall appreciate information as to such situations and suggestions as to any action, including an amendment, that you may consider desirable."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, prepared in accordance with the action taken at the meeting of the Board on November 3, 1942, reading as follows:

"This refers to the matter of Clark Brothers Furniture Stores and particularly to the 'Designated Terms of Agreement' of November 2, 1942, enclosed in Mr. Turman's letter to Mr. Dreibelbis of the same date.

"Enclosed herewith are six copies of a proposed Order suspending the license of the Registrant for a period of one week and copies of a proposed press release which the Board will release to the press upon the issuance of the Order.

"The Board will appreciate your seeing that Mr. Turman checks the Order with respect to the correctness of recitals of fact, such as the names of the parties, the trade name of the stores and other similar recitals.

"In the 'Designated Terms of Agreement' it is observed that Mr. Clark agrees that the Clark Brothers Stores 'will be closed for all purposes for a period commencing at close of business November 21, 1942, to the opening of business November 28, 1942, * * *'. This period, as you will note, would not be for one week but would extend only from the close of business on a Saturday night until the opening of business on the next Saturday morning. The proposed Order of the Board covers one week and includes Saturday.

"You will observe a space for the three partners to sign on the last page of the Order. When they have signed the original, please return it together with three other signed copies

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"to be used in connection with the Federal Register and the original of the press release. The Board will also wish advice at that time that the press release was read by Mr. Clark.

"Upon receipt of the executed original, the Board will issue the Order. Meanwhile, please advise the parties that no publicity is to be given to the matter until the Order has been issued by the Board at which time one of the copies of the Order and the press release may be sent to Mr. Clark and the other is to be retained for your files."

Approved unanimously.

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

"This refers to your letters of October 22 and October 30, 1942 with regard to the recent letter from the Deputy Commissioner of Internal Revenue to the McIlroy Bank and Trust Company in which the Deputy Commissioner declined to rule on a question raised by the bank as to whether a proposed stock dividend would be taxable as income.

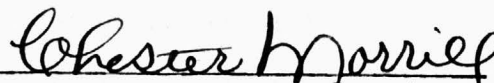
"You will recall that in my letter of February 12, 1942 we described the circumstances involved in a similar question that had arisen and, in view of the reluctance of the Bureau of Internal Revenue to issue a ruling until settlement of the pending litigation, I regret that there do not appear to be any further suggestions we could make that would be helpful to the McIlroy Bank and Trust Company. We understand that the Sprouse case mentioned in my letter of February 12 will be argued before the Supreme Court sometime next week."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.