

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 1, 1943, at 11:00 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

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 December 31, 1942, were approved unanimously.

Telegrams to Messrs. Treiber, McCreedy, and Hays, Secretaries of the Federal Reserve Banks of New York, Philadelphia, and Cleveland, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 29, by the Federal Reserve Bank of New York on December 30, and by the Federal Reserve Banks of Philadelphia, Cleveland, Kansas City, and Dallas on December 31, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum dated December 29, 1942, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that Miss Beulah B. Bornholdt be appointed as a stenographer in Governor Szymczak's office, with salary at the rate of \$1,800 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated December 30, 1942, from Mr. Morrill, recommending that Miss Nannie Pearson be appointed as an elevator operator in the Secretary's Office on a temporary basis for an indefinite period, with salary at the rate of \$1,200 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

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

"The Board of Governors has considered the recommendation of the Executive Committee of your Bank, contained in your letter of December 19, 1942, and pursuant to the provisions of Section 19 of the Federal Reserve Act grants permission to the 'William Penn Bank of Commerce,' Pittsburgh, Pennsylvania, to maintain the same reserves against deposits as are required to be maintained by member banks located outside of central reserve and reserve cities, effective as of the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"The Board of Governors has considered the recommendation of the Executive Committee of your Bank, contained in your letter of November 24, 1942, and pursuant to the provisions of Section 19 of the Federal Reserve Act grants permission to the 'Mercantile-Commerce National Bank in St. Louis', St. Louis, Missouri, to maintain the same reserves against deposits as are required to be maintained by member banks located outside of central reserve and reserve cities, effective as of the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to Mr. Irvin Wesley, President of the American Association of Small Loan Companies, Indianapolis, Indiana, reading as follows:

"Ever since Regulation W was adopted, one of the questions of public policy which has been the subject of continuing studies by the Board and its staff is the question of what treatment should be accorded -- in the inflationary situation created by the war -- to the types of instalment transactions that are now covered by section 10(b) entitled 'Additions to Outstanding Credit Held by Registrant'. There are two such types, of which one, now possibly the more important, is in the instalment lending business, where the transactions are commonly known as 'new loans to present borrowers' and 'consolidations', and the other is in the instalment selling business, where the transactions are commonly known as 'add-ons'.

"For use in these studies, the Board would like to have at this time the benefit of the present views of representatives of a number of trade associations with respect to the following question:

"Should Regulation W be amended with a view to discouraging or preventing the use by the customer of either or both of these types of transactions as a means of avoiding or postponing debt retirement, in circumstances which do not come within the provisions relating to the Statement of

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"Necessity, and also with a view to discouraging the promotion by Registrants of such use by the customer?

"The Board would also like to have comments and suggestions concerning methods by which appropriate restraint might be applied to either or both of the two designated types of instalment transactions. The following methods are among those which have been suggested --

(A) Deleting Option 2 from section 10(b);

(B) Amending clause (ii) of Option 2 by substituting '9 months' or some other period in place of '12 months';

(C) Amending clause (ii) to read as follows: '(ii) is larger to whatever extent may be necessary in order to repay the consolidated obligation within 12 months and is larger in any event by not less than \$5.00 per month or \$1.25 per week'.

"In preparing your reply, it is hoped that you will include consideration of whatever matters of public policy in war time seem relevant to you, as well as such facts and figures as you may desire to present. It is desired that your reply be in writing and in duplicate, and that it should reach the Board within two or three weeks and in any event before the end of January, 1943.

"This request is not to be taken to imply, either by reason of the form in which it is put or otherwise, that the Board has before it at present any recommendation for Board action along the lines outlined. The Board's purpose in making the request in this form and at this time, as already indicated, is to develop information and opinion that will be helpful in the present stage of a systematic study of the subject.

"This communication is being sent to a number of trade associations, but it should be regarded as confidential in the sense that its contents are not for publication."

Approved unanimously, together with an identical letter to 15 additional trade associations.

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

"There is enclosed for your information a copy of a portion of a letter of December 29, 1942 addressed to the Board's General Attorney by Mr. Thomas E. Harris, Assistant General Counsel, Office of Price Administration, ruling that

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"bank examiners employed by the Federal Reserve Banks may be eligible for preferred mileage ('C' gasoline ration books) as Government agents under Section 7706 (a) Mileage Rationing: Gasoline Regulations (Ration Order No. 50).

"Mr. Harris expressed a contrary opinion concerning inspectors employed by the Federal Reserve Banks to investigate compliance with Regulation W but we understand informally that they probably would be accorded the same status as the bank examiners if they were individually approved by the Board. It is not clear that there is such need for gasoline for the inspectors, beyond that which they can obtain through 'B' gasoline ration books, as would justify the additional work and inconvenience involved in individual approvals of inspectors. Accordingly advice as to the views of the Federal Reserve Banks concerning this matter, together with information as to their experience with respect to lack of transportation for Regulation W inspectors, will be appreciated."

Approved unanimously.

Letter to Honorable Daniel W. Bell, Under Secretary of the Treasury, reading as follows:

"There are enclosed a copy of a letter addressed to the Board of Governors of the Federal Reserve System by the President of the Federal Reserve Bank of New York dated December 24, 1942, and a copy of each of the enclosures referred to therein, with regard to the method of determining taxable income on Treasury bills purchased or sold by a foreign corporation which is subject to taxation under section 231(a) of the Internal Revenue Code and to withholding under section 144 thereof.

"You will note that the President of the Federal Reserve Bank of New York feels that both the Treasury Department and the Federal Reserve System are interested in the problem discussed in the enclosures because of the possible effect of deterring nonresident aliens and foreign corporations subject to tax under sections 211 and 231(a) of the Internal Revenue Code from purchasing bills in the open market and of creating administrative difficulties for the Federal Reserve Banks as withholding agents if the existing ruling relating to the computation of interest on Treasury bills purchased in the open market is adhered to.

"In the circumstances, it will be appreciated if your Department will review this matter and advise the Board as to the proper method of determining taxable income when

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"Treasury bills, after they have been issued, are purchased or sold by a foreign corporation which is subject to taxation under sections 211 and 231(a) of the Internal Revenue Code and to withholding under section 144 thereof."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

[Signature]
Vice Chairman.