A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 10, 1943, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
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 March 8, 1943, were approved unanimously.

Memorandum dated March 8, 1943, from Mr. Morrill, recommending that Mrs. Betty L. Buchanan and Miss Frances K. Allred be appointed as junior file clerks in the Secretary's Office on a temporary basis for a period of six months, each with basic salary at the rate of $1440 per annum, effective as of the respective dates upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination, with the understanding that if their services prove to be satisfactory a recommendation will be made that their appointments be made permanent.

Approved unanimously.

Memorandum dated March 5, 1943, from Mr. Leonard, Director of the Division of Personnel Administration, submitting the resignation of
3/10/43

Miss Mary M. McDonnell, a stenographer in the Legal Division, who had been granted a leave of absence without pay beginning July 8, 1940, to work in a war agency, to become effective as of the close of business on December 31, 1942, and recommending that the resignation be accepted as of that date. The memorandum also recommended, for the reasons stated therein, that the payments made to the Board to reimburse it for its contributions to the retirement system on their account be refunded to Miss McDonnell in the amount of $102.08 and to Mrs. Lida Sloan Moon and Robert K. Thompson, a stenographer and general assistant, respectively, in the Secretary's Office who were also granted leaves of absence without pay to work in war agencies, in the respective amounts of $94.80 and $146.51.

Approved unanimously.

Memorandum of this date from Mr. Morrill, submitting the resignation of Alma Prather as a kitchen helper in the Secretary's Office, to become effective as of the close of business on March 11, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum dated March 8, 1943, from Mr. Szymczak, submitting a memorandum dated March 5 from Mr. Gardner, Senior Economist in the Division of Research and Statistics, with respect to a telephone request which he had received from Mr. White, Director of Monetary Research for the Treasury Department, as to whether he would be prepared to go to
Cuba for a period of two or three weeks some time after March 15, 1943, to assist in the completion of the project for the establishment of a central bank in Cuba. Mr. Szymczak's memorandum recommended, with the concurrence of Mr. Goldenweiser, Director of the Division of Research and Statistics, that Mr. Gardner be authorized to make the trip.

Approved unanimously.

Letter to Mr. Stewart, Vice President and Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"This is in reply to your letter of March 3, 1943, advising of the resignation of Foster H. Embry as a member of the Industrial Advisory Committee and the appointment, subject to the approval of the Board, of G. A. Heuser, President of the Henry Vogt Machine Company, Louisville, Kentucky, as his successor. The Board of Governors approves the appointment of Mr. Heuser as a member of the Industrial Advisory Committee for the Eighth Federal Reserve District to serve for the remaining portion of Mr. Embry's term which expires February 29, 1944."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 2, 1943, the Board of Governors approves the appointment of Miss Minnie Smith as Alternate Assistant Federal Reserve Agent at your Bank at her present salary of $2,160 per annum effective as of the date she assumes her duties as Alternate Assistant Federal Reserve Agent and with the understanding that Miss Smith 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 her duties. When not engaged in the performance of her duties as Alternate Assistant Federal Reserve Agent she may, with the approval of the Federal Reserve Agent, or, during a vacancy in the office of the Agent, of the Assistant Federal Reserve Agent, at your discretion assign her duties, subject to the approval of the Board of Governors."

Approved unanimously.
"Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with her duties as Alternate Assistant Federal Reserve Agent.

"Miss Smith should execute the usual oath of office and surety bond in the amount of $10,000 and she should not enter upon the performance of her duties as Alternate Assistant Federal Reserve Agent until the bond has been examined by your Counsel to determine whether its execution complies fully with the rules printed on the reverse side of form of bond 182, following which the bond should be forwarded to the Board promptly for approval."

Approved unanimously.

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

"In view of the facts stated in your letter of January 16, and in the light of discussion with Mr. Clerk during his recent visit, the Board of Governors approves the following pages in the Personnel Classification Plan of your Bank:

<table>
<thead>
<tr>
<th>Department</th>
<th>Position</th>
<th>Annual Salary</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Office</td>
<td>Tabulating Clerk</td>
<td>$2,700</td>
<td>151</td>
</tr>
<tr>
<td>Engineers Dept.</td>
<td>Elevator Operator</td>
<td>1,800</td>
<td>92</td>
</tr>
<tr>
<td>Los Angeles Branch Building Dept.</td>
<td>Elevator Operator</td>
<td>1,800</td>
<td>13</td>
</tr>
</tbody>
</table>

Approved unanimously.

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

"In accordance with the request contained in your letter of March 3, 1943, the Board approves the designation of Louis H. Goller as a special assistant examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to the "First National Bank in New Castle", Newcastle, Indiana, reading as follows:
"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Indiana, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Telegram dated March 9, 1943, to Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Your wire March 8. Services now holding conferences on standard form of guarantee, with hope of reaching an agreement at an early date. However, if you have any suggestions which you feel are important, suggest you wire them as soon as possible."

Approved unanimously.

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

"Board agrees with opinion enclosed your letter March 3 regarding Regulation W."

Approved unanimously, the opinion of Counsel for the Bank reading as follows:

"In connection with Regulation 'W', you have asked our opinion concerning the following problem:

A borrower goes to a Loan Company and requests a loan in the amount of $475.00. The statement of borrower given to the loan company contains only the following information:
(1) Question 1 is answered 'No'.
(2) Question 2 is answered 'Yes'.
(3) Question 3 is answered 'No'.

(4) Paragraph 5 shows that the person holding the debt is the B Loan Company; the unpaid balance is $400.00; the terms are 20 payments of $25.00 each; and the amount to be paid off is $400.00.

"You ask whether the A Loan Company may, without further inquiry, grant installment terms to the borrower of twenty monthly payments at $25.00 each with respect to the amount used to pay off the loan held by the B Loan Company.

"Section 10(c) provides that an installment loan to retire an installment loan by another lender is subject to the regulation to the same extent it would be subject if the prospective lender held the loan being retired. Thus the second lender must ordinarily ascertain the date of the original loan, the principal amount, the repayment schedule, and, in some instances at least, the purpose. One item of this information, the terms of repayment, is supplied by paragraph 5 of the statement of borrower. The balance of the information must be secured independently.

"Section 6(d) provides for the statement of borrower and the extent to which a registrant may rely upon it. The form of this section indicates the nature of the protection which it affords. 'If the Registrant relies in good faith on the facts set out by the obligor . . . (the statement) shall be deemed to be correct for the purposes of the Registrant.' In other words, the A Loan Company may act in good faith on the representation that the terms were $25.00 each month for 20 months even though in fact the terms were $10.00 each month for forty months. It could rely in good faith on a negative answer to question 2 of the statement of the borrower despite the fact that the borrower intended to and did use $400.00 of the loan to pay off the B Company loan. But unless the A Loan Company is willing to assume the risk that its loan may violate the regulation, it should make further inquiry where the statement of borrower indicates that part or all of the loan will be used to retire another installment loan which it does not hold.

"On its face, the statement of borrower summarized at the outset warns that the B Company loan may not comply with the regulation. It is true that the terms of $25.00 each month for 20 months may be the result of a bona fide collection effort, revision of a service man's obligation, or the unpaid balance of a loan having an original principal amount greater
than $1,500.00, but the inference that the loan constituted a willful violation of section 6 is equally plausible and consistent. Perhaps the second lender is ordinarily safe in continuing the terms granted by the first lender if the representation in paragraph 5 of the statement of borrower does not suggest that the terms may violate the regulation. But where the terms stated in paragraph 5 would violate the regulation unless the original loan was an unregulated or excepted transaction, the second lender is placed upon notice of facts which require further inquiry.

"Section 6(d) authorizes reliance in good faith on the statement only in the sense that the registrant may accept the prospective borrower's representations of fact as correct. The form supplied by the Board of Governors does not provide means for eliciting any information other than that required to answer five specific questions, and the right to rely granted by section 6(d) is confined to this form. There is at least a technical basis for doubting that the registrant may rely on a gratuitous representation on the statement of borrower although it may, of course, be relevant in establishing lack of negligence or bad faith.

"There is further reason for believing these conclusions reflect the intention of section 6(d). On the reverse side of the form of statement of borrower issued by the Board of Governors the lender is warned that the form 'does not provide all the information that it may be necessary for the lender to have if he intends to avail himself of certain provisions of Regulation W' and that 'in any case as to which the lender must obtain additional information in order to be protected in making the particular loan under consideration, the facts themselves will govern.'

"This quotation summarizes our construction of section 6(d). It follows that the A Loan Company must make an independent determination of the propriety under the regulation of granting the terms requested by the borrower."

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

"This refers to your letter of February 26, 1943 with regard to the procedure in reporting apparent criminal violations of the banking laws of the United States to the local United States Attorney and field office of the Federal Bureau of Investigation, particularly when such offices have been previously advised of the violation by the member bank.
"As you know, the Department of Justice has expressed the desire that Federal Reserve Banks make prompt reports of possible criminal violations of the banking laws of the United States not only to the appropriate field office of the Federal Bureau of Investigation but also to the local United States Attorney and has indicated that a uniform procedure be followed in all cases. While there may be cases involving unusual and exceptional circumstances that would appear to make it unnecessary to make such reports where the member bank involved has already reported the matter to such officials, it is believed that fewer difficulties will arise if your Bank will make the reports requested by the Department of Justice even though some time might have elapsed between the making of the report to such officials by the member bank and the time your Bank has been advised of the violation. We note that you have been diligent in impressing upon member banks the necessity of making prompt reports of criminal violations to you and in these circumstances it would seem that the number of cases of the kind referred to in your letter of February 26 would be exceedingly small."

Approved unanimously.

Thereupon the meeting adjourned.

[Signature]

Chairman.