

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 4, 1943, at 11:00 a. m.

PRESENT: Mr. Eccles, 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 May 3, 1943, were approved unanimously.

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

"Recently a question arose as to what contracts should be included in determining adjustments under Section 6 of the guarantee agreement. In order to avoid similar questions in the future and the necessity for the General Accounting Office to examine into the correctness of the basic data used in such calculations, the War Department, Navy Department, and Maritime Commission will appreciate it if, before any computations are made in connection with future adjustments under Section 5 or Section 6 of the old form of guarantee agreement, you will endeavor to have the guarantee agreement amended by the insertion therein of paragraph (C) of Section 19 of the form of guarantee agreement dated April 6, 1943, changing the words 'Section 6(A)' in the paragraph to read 'Section 6'.

Your cooperation in this respect will be appreciated."

Approved unanimously.

Memorandum dated May 4, 1943, addressed to the War Loans Committee by Mr. Smead, Acting Administrator for the Committee, referring

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to the telegram which was sent to the Presidents of all the Federal Reserve Banks under date of May 1, 1943, with respect to the proposal that if a financing institution charged a borrower a commitment fee in connection with a loan guaranteed pursuant to Executive Order No. 9112 of March 26, 1942, the amount of such fee should not exceed $1/4$ of 1 per cent per annum on the undisbursed portion of the loan, and also that no termination fee, service fee, or other fee of a similar character, except charges covering out-of-pocket expenses of a financing institution, might be charged a borrower in connection with such a guaranteed loan. The memorandum, after stating that all of the Reserve Banks except Boston favored the proposal, reviewed the comments made by the Banks in connection with it and suggested that the following proposed telegram to the Presidents of all the Federal Reserve Banks be submitted to the War Department, Navy Department, and Maritime Commission for their approval or such suggestions as they might wish to make:

"Referring our wire May 1, after consulting with War Department, Navy Department, Maritime Commission and Federal Reserve Banks, Board has decided that in any case in which a financing institution charges a borrower a commitment fee in connection with a loan that is guaranteed pursuant to Executive Order 9112, amount of such fee may not exceed $1/4$ of 1 per cent per annum on undisbursed portion of loan; also that no termination fee, service fee, or other fee of a similar character, except charges covering out-of-pocket expenses of a financing institution, may be charged a borrower in connection with such a guaranteed loan. As experience shows that commitment fees are charged only in a relatively few cases, Board is not issuing a press release in this matter and is transmitting it to you for your guidance in handling applications for Regulation V loans."

Approved unanimously, with the understanding that if approved by the services the wire would be sent promptly to the Federal Reserve Banks.

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Memorandum dated April 28, 1943, from Mr. Parry, Chief of the Division of Security Loans, and Mr. Thomas, Assistant Director of the Division of Research and Statistics, reading as follows:

"Over the past few months we have received a number of letters and some verbal comments from industrial bankers expressing the view that the figures on consumer credit of industrial banks, the collection of which was taken over by the Board from the Department of Commerce, do not reflect correctly the changes in consumer instalment credit at their institutions. It is contended that the figures reported are not restricted wholly to consumer credit but include other forms, so that the large decline in the instalment part is obscured by smaller declines or actual increases in the remainder. For this reason the effect of regulatory policy on outstanding credit is not accurately reflected in the figures. Several exhibits supporting this point are attached."

"Representatives of the two trade associations in the field have for some time urged a change in the reporting system. Mr. Richard Stout, President of the Morris Plan Bankers' Association and Mr. Myron Bone, Executive Secretary of the American Industrial Bankers Association both believe the figures are inadequate and have said informally that they will support a revision of reporting practices with their members."

"The specific objections raised to the present series are not wholly justified, but the industrial bankers are right in asserting that the existing figures taken over from the Department of Commerce are, in some respects, defective. Figures reported by individual respondents do not agree in a great many instances with the consumer credit outstanding shown on condition reports or registration statements of these firms, and they also show random variations which cannot be explained. Furthermore, reports are collected from a larger number of respondents than would be necessary, if the current reporting basis were sound and dependable."

"Although mindful of the responsibility not to make the reporting of statistics any more burdensome in times such as these, and of the public criticism that statistical inquiries are likely to arouse, we believe that the present series should be amended so as to correct the faults mentioned above. We recommend, therefore, that the Board approve the plan outlined in the attached memorandum from Miss Baird and Mr. Robinson, including the attached table forms and letters, and authorize the staff to put it into effect, subject to such minor revisions as may prove to be desirable."

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"Any substantial changes from the basic plan outlined here, developing for unanticipated reasons, will be referred to the Board for further action."

Approved unanimously, together with the following letter to the Presidents of all the Federal Reserve Banks:

"The reliability of our current figures on consumer credit of industrial banking companies has been questioned in recent months by respondents and by officers of the trade associations to which many belong. When the consumer credit series was first transferred, several Reserve Banks found that industrial banks were reporting incorrectly, but it had been decided to continue the series taken over from the Department of Commerce without change until the need for revision was clearly evident. On the basis of our experience and the information furnished by respondents, we are reasonably certain that such need has now been established. The view is supported by the heads of the two trade associations representing these institutions."

"In view of this, a plan has been worked up covering the collection of current figures and provision of back figures for comparative purposes. The reasons for the change and the proposed forms are shown in the enclosed staff memorandum. We should appreciate having your comments on the plan both in general and in detail. Since this proposal is also being sent to the trade associations for comment you are at liberty to consult industrial bankers or others who might have helpful ideas. We should prefer, of course, that notice of this proposal not get into the press as yet."

"Future correspondence on this subject should be addressed to Woodlief Thomas, Division of Research and Statistics."

Unanimous approval was also given to letters to Mr. Richard H. Stout, President of the Morris Plan Bankers Association, Washington, D. C., and to Mr. Myron R. Bone, Executive Secretary of the American Industrial Bankers Association, Fort Wayne, Indiana, enclosing copies of the memorandum prepared by Miss Baird and Mr. Robinson and requesting any observations they might make about the practicability of the plan as proposed.

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Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 17, 1942, for printing of \$24,000,000 of Federal Reserve notes of the 1934 Series for the Federal Reserve Bank of Atlanta in the \$20 denomination."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.