

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 25, 1943, at 11:00 a.m.

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

Mr. Morrill, 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 June 24, 1943, were approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Brome, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Keesee, Secretary of the Federal Reserve Bank of Richmond, Mr. Frazer, Secretary pro tem of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of Dallas on June 21, by the Federal Reserve Banks of St. Louis and San Francisco on June 22, by the Federal Reserve Bank of Atlanta on June 23, by the Federal Reserve Banks of New York, Richmond, Chicago, and Minneapolis on June 24, 1943, and by the Federal Reserve Bank of Boston

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today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 22, 1943, from Mr. Morrill, recommending that Mrs. Ruth Morris be appointed as an elevator operator in the Secretary's Office on a temporary basis for an indefinite period, with basic 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, with the understanding that if anything derogatory should develop in the investigation of her references her services may be terminated immediately.

Approved unanimously.

Memorandum of this date from Mr. Morrill, recommending that, effective July 1, 1943, (1) the temporary appointment of Miss Annie Bates as a cafeteria helper in the Secretary's Office be made permanent, with an increase in her basic salary from \$1,080 to \$1,200 per annum, and (2) the temporary appointment of Mrs. Mary Cumberledge as a cafeteria helper be made permanent, with no change in her present basic salary at the rate of \$1,200 per annum.

Approved unanimously.

Memorandum dated June 16, 1943, from Mr. Paulger, Chief of the Division of Examinations, recommending that the basic salary of Charles Eaton, Assistant Federal Reserve Examiner, be increased from \$2,200 to \$2,600 per annum, effective July 1, 1943.

Approved unanimously.

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Memorandum dated June 23, 1943, from Mr. Morrill, recommending that M. DuBose MacDowell, a clerk in the Correspondence and Publications Section of the Secretary's Office, be granted leave of absence without pay beginning July 3, 1943, so that he might enter active duty with the United States Naval Reserve, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously, with the understanding that the payment of one month's unearned salary would be at the rate of basic salary plus overtime.

Memorandum dated June 21, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Miss Betty J. Strickler as a clerk-stenographer in that Division, to become effective as of the close of business on July 26, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors approves payment of salaries to officers of the Federal Reserve Bank of Cleveland for the period July 1, 1943 to April 30, 1944, inclusive, at the rates fixed by the Board of Directors as reported in your letter of May 25, 1943.

"The proposed increase of \$2,000 in the salary of Mr. Kossin seems large in view of the rapid increases received during recent years and particularly the substantial increase received January 1, 1943. However, the Board understands that the directors are of the opinion that the increase is altogether warranted by reason of the promotion of Mr. Kossin to the position of Vice President, his demonstrated ability, the expansion of the activities at the Branch, and the fact that a salary of \$10,000 has been recommended for the Vice President in charge of the Cincinnati Branch. In the light of these circumstances, the Board considers this an exceptional case and approves a salary of \$10,000 for Mr. Kossin as recommended by the directors.

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"Mr. Laning, who was transferred from the Audit Department and appointed an officer of the Bank in September 1942, has likewise received substantial increases recently. In view of all of the circumstances, however, including Mr. Laning's long service as assistant auditor, the readjustment of duties effective July 1 with retirement of Mr. Zurlinden and the promotion of Mr. Hays to the position of First Vice President, and the responsibilities of Mr. Laning in his new position as principal operating officer of the Bank, the Board approves an increase of \$1,000 in his salary effective July 1, 1943, as recommended by the directors.

"The salaries as approved are as follows:

<u>Name</u>	<u>Title</u>	<u>Salary Approved</u>
<u>Main Office</u>		
Fleming, M. J.	President	\$25,000
Hays, R. B.	First Vice President	15,000
Fletcher, W. H.	Vice President	15,000
Taylor, W. F.	Vice President	10,000
Mackenzie, K. H.	Vice President	7,000
Laning, A. H.	Vice President and Cashier	8,000
Carter, E. A.	Assistant Vice President	7,500
Fulton, W. H.	Assistant Vice President	6,500
Smith, H. E. J.	Assistant Vice President	6,500
Bolthouse, C. J.	Assistant Cashier	6,000
Findeisen, W. L.	Assistant Cashier	6,000
Morrison, W. M.	Assistant Cashier	6,000
Harrell, C.	Assistant Cashier	5,200
Grayson, F. V.	Auditor	9,000
<u>Cincinnati Branch</u>		
Lazar, B. J.	Vice President	10,000
Ott, H. N.	Cashier	7,000
Johnson, R. G.	Assistant Cashier	5,000
Geers, P. J.	Assistant Cashier	4,700
Brown, S.	Assistant Cashier	4,200
<u>Pittsburgh Branch</u>		
Kossin, J. W.	Vice President	10,000
Foster, A. G.	Cashier	8,000
Schmidt, J. A.	Assistant Cashier	5,000
Steinbrink, R. J.	Assistant Cashier	4,500
Nolte, Wm. H.	Assistant Cashier	4,240

"The Board likewise approves the payment of a retainer fee to the firm of Squire, Sanders and Dempsey at the rate of \$5,000 per annum for the period from July 1, 1943 to April 30, 1944."

Approved unanimously, together with
the following additional letter to Mr.
Brainard:

"In accordance with the request contained in your letter of May 20, the Board of Governors approves the payment of a

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"separation allowance of \$9,000 to the Retirement System for the benefit of Mr. Frank J. Zurlinden, as proposed by the Board of Directors of your Bank.

"This is an unusual case in that Mr. Zurlinden who reached the age of 65 last July, became a retired member of the Retirement System January 1, 1943 and any payment to the Retirement System for his account reopens the case of a retired member, and also in that the proposed payment is in excess of the amount authorized under the Board's letter S-7 dated June 24, 1937.

"However, Mr. Zurlinden continued to serve in the capacity of First Vice President under his appointment for a five-year term, which does not expire until 1946, and is withdrawing from active service on June 30, 1943 in a spirit of cooperation with the directors of the Bank in order to avoid a situation where both the President and First Vice President would retire at the same time by reason of the simultaneous expiration of their terms of office, and thereby to enable the directors to carry out their program of reorganization of the executive personnel. Therefore the Board approves the proposed payment in accordance with the recommendation of the directors, with the understanding, however, that it does not establish any precedent."

In connection with the above matter, unanimous approval was also given to the following additional letter to Mr. Brainard:

"In the light of the reasons advanced by the directors of the Bank in their recent discussions with Governor Szymczak and in view of all the circumstances, including the fact that a separation allowance of \$4,500 in connection with the retirement of Mr. C. W. Arnold as Vice President of the Bank on June 30, 1943 would have been within the terms of the authorization contained in the Board's letter S-7 dated June 24, 1937, the Board interposes no objection to the payment in accordance with the recommendation of the directors. It may be added in this connection that it is contemplated by the Board that the authorization contained in letter S-7 will be canceled in the near future."

Letter to the "First National Bank in Larned", Larned, Kansas, reading as follows:

"This refers to the resolution adopted on February 9, 1943, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has

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"issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act, except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"This refers to your letter of June 14, 1943, requesting the views of the Services and of the Board of Governors with respect to the manner in which suit should be brought on a guaranteed loan.

"The views of the Services regarding this matter are set forth in the enclosed letters from Lieutenant Colonel John S. Bachman of the War Department, dated June 16, 1943, Mr. William A. Coolidge of the Navy Department, dated June 17, 1943, and Lieutenant B. B. Griffith of the United States Maritime Commission, dated June 19, 1943.

"The Board of Governors agrees with the opinion expressed in your letter that a suit on a loan guaranteed under Regulation V should be brought in the name of the United States, particularly in the light of the requirement of the Federal Rules of Civil Procedure that all suits be brought in the name of the real party in interest."

Approved unanimously.

Letter to Mr. Kennel, Assistant Counsel of the Federal Reserve Bank of Boston, reading as follows:

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"This refers to your letter to the Board of June 14, 1943, enclosing a copy of a letter to you of June 3 from Mr. D. L. Dorfman, New England Home Equipment Company, Boston, Massachusetts, and a copy of your reply to Mr. Dorfman of June 14, all relating to the application of the \$6 down-payment exemption of Section 4(a)(3) of Regulation W in the light of Section 12(1) of the Regulation.

"The fact that certain items of merchandise retail individually for \$6 or less does not mean that several such items may be sold at or about the same time without a down payment where the total cost of all such items purchased, based upon their individual retail prices, exceeds \$6 and such items constitute a set or group within the meaning of Section 12(1). Thus, you are correct in your view that the \$6 down-payment exemption of Section 4(a)(3) was not intended to do more than facilitate the sale of low-priced articles purchased miscellaneously.

"The Board has previously stated that the principal purposes of Section 12(1) were to make the Regulation more realistic by making it conform to customs and merchandising methods, and also to prevent evasion. This view is implicit in your letter to Mr. Dorfman. So far as Regulation W is concerned a merchant, as you pointed out, may sell his wares in such groups or combinations as he wishes. However, as indicated by the Board's letter to you of June 19, 1942, the fact that a customer is permitted to purchase a combination comprised of fewer items than might be generally considered as a complete set or group does not prevent such items as the customer does buy at or about the same time and which are commonly used together from constituting an 'article' under Section 12(1).

"The Board, therefore, is in general agreement with your letter of June 14, 1943, to Mr. Dorfman."

Approved unanimously.

Letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"Your letter of June 10, 1943 inquires whether under Option 2 in section 10(b) of Regulation W a loan company may make a loan, part of which is to be used to retire a loan made to the same borrower by another loan company, if the payments under the new loan are smaller than the payments under the loan being retired but the difference is due solely to the fact that the second loan company charges a lower rate of interest than the first.

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"The example which you give is that the loan by the first company was originally \$300 payable in 12 instalments of \$31.05 each. After two instalments have been paid, the borrower borrows \$300 from the second loan company payable in 12 instalments of \$29.65, using part of the proceeds to pay off the remaining balance on the old loan.

"Option 2 provides that the new obligation shall provide for a rate of payment 'at least as large' as the rate of payment on the old obligation. Where a flat-payment loan replaces a flat-payment loan as in the example which you give, this provision refers to the regular amount of the payment (which in your example would be \$31.05) except in a case where the rate of interest on the new loan is lower than on the old loan and in such a case the payment on the new loan may be smaller by the amount representing the difference in interest. Under section 10(a) the original lender in a 12-months instalment loan could reduce the rate of payment by reducing the rate of interest, and the regulation does not prevent the second lender from doing the same thing under Option 2 in the case presented by you. Of course, where the old obligation is in arrears, revision under section 10(a) would call for the spreading of the arrearage over the remaining payments and this might or might not result in a lower rate of payment on the new obligation depending upon the amount of the arrearage and the difference in the rates of interest."

Approved unanimously.

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

"As you know, there has been considerable discussion of the preliminary outlines of separate plans prepared in the Treasury Department and by the British Government for postwar international monetary stabilization which were released to the press in April of this year. The texts of the two plans (currently referred to as the White plan and the Keynes plan) are set forth beginning on page 501 of the June issue of the Federal Reserve Bulletin.

"Members of the Board's staff have participated with representatives of the Treasury staff and others in our Government in informal discussions of these plans and are participating in the discussions which are now taking place with technical experts from united and associated nations. All of these discussions have been on a staff level. The comments of the Board of Governors with respect to the plans have not yet been requested and the Board has reserved its right to express its own views whenever it seems appropriate to do so.

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"The Board of Governors has not determined the extent to which it may wish to express its views on the two proposals, and in connection with its consideration of the whole matter would be glad to have any comments that the officers and directors of the Federal Reserve Banks might wish to make. It would be appreciated, therefore, if at an early meeting of the directors of your Bank the plans could be discussed with the senior officers of the Bank and if the Board of Governors could be given the benefit of any conclusions that might be reached.

"This letter is being sent to the Chairmen and Presidents of all of the Federal Reserve Banks."

Approved unanimously.

Letter to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in your letter of June 11, 1943, we forwarded to the Office of Censorship and the Bureau of Customs your letters of the same date with respect to the procedure to be followed in handling communications between the Federal Reserve Bank of New York and the Banque Nationale Suisse with reference to the accounts on your books in the name of the latter institution. Copies of the replies received to both of these letters are enclosed. It will be noted from the reply from the Bureau of Customs that the matter is being given some study and that as soon as certain information is obtained they will advise us further.

"In connection with the first paragraph of the letter from the Director of Censorship, it is our understanding that the procedure followed by the Federal Reserve Bank of New York in handling communications between your Bank and the Vatican and the Sveriges Riksbank was discussed informally with the Office of Censorship, but there is nothing in our files to establish the fact that that was done, and as you know, Mr. Wingfield, who handled the matter, is temporarily away from the office.

"As Mr. Tiebout was advised by Mr. Vest over the telephone, Mr. Fry in the Office of Censorship called on the telephone on the day following the date of the letter from the Director of Censorship to discuss your letter of June 11 and suggested that we confirm with you the fact that from the standpoint of censorship there would be no damage done if any of the information contained in the communications between your Bank and the Vatican, the Sveriges Riksbank, and the Banque Nationale Suisse fell into

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"enemy hands. It was understood at that time that upon receipt of such confirmation, your letter of June 11 would be considered by the Office of Censorship. Before we could communicate with you the reply from the Office of Censorship was received, and in discussing the matter further with Mr. Fry over the telephone he stated that it was realized that the sending of the reply was not in accordance with the earlier telephone conversation and that, although the letter on its face might appear to be critical of the procedure followed in connection with communications between your Bank and the Vatican and the Sveriges Riksbank, no criticism was intended.

"If after considering the matter further you should desire to submit the communications in question for precensorship, we shall be pleased to make the necessary arrangements with the Office of Censorship."

Approved unanimously.

Letter to Mr. Robert H. Bolman, President of The Independent Bankers Association of Southern California, Los Angeles, California, reading as follows:

"In response to your letter of June 5, 1943, addressed to Chairman Eccles the Board has asked me to advise you that it would favor legislation which would provide effective regulation of bank holding companies."

Approved unanimously, Mr. Ransom stating that he approved with reservations as to both the form and substance of the letter.

Memorandum dated June 24, 1943, from Mr. Dreibelbis, General Attorney, recommending that there be published in the July issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subject:

Consumer Credit
Suspension of License
Advances to Life Insurance Agents

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.