



vants in our present administration today, Governor Ransom. (Applause).

Credit Control

GOVERNOR RONALD RANSOM: Mr. President, Ladies and Gentlemen:

I only wish that I deserved a small part of the very kind introduction of my friend, Mr. Morris. I have not made it a rule to accept invitations to address various meetings since I have been a member of the Board; quite otherwise. In this particular instance I did not feel that I could possibly decline the invitation. When we were faced with the difficulties inherent in Regulation W and we called on the various trades involved to come in and discuss the matter with us, we had no finer cooperation, no better response, than from Mr. Morris and the officials of your Association, who accepted every invitation we extended and responded in the most friendly and cooperative manner, and I thought it was as little as I could do to come here this morning and express to you our real appreciation of the help you people have given us. Also, I was influenced somewhat, of course, by the fact that I was being invited back to Georgia. If you men don't want a Georgian to visit Georgia, you'd better not ask him. As a matter of fact, I have felt from the beginning of our struggles with this situation that we had much to learn from the Morris Plan bankers. Mr. McFadden gave some slightly astronomical figures this morning, but Mr. Morris tells me that you have had on your books at various times during your existence twenty-four million accounts. That is a large number and means that you have had many contacts and that you have considered the consumer and the customer. In this matter of regulating consumer and installment credit, it becomes absolutely necessary that we should know something not only about the people who represent the trades involved, but about the man whose affairs we are, after all, regulating—the consumer, the purchaser, the borrower. I have found that I could learn much in contacts with you people.

Mr. President, I would like this morning, if I may, to try to put Regulation W in its true perspective. It has a background; it did not come about overnight; it is not just a spontaneous effort on the part of the Government to extend the field of regulation. I listened with great interest to Professor Sly's very astute, very profound analysis of the situation facing this country today. I appreciate the fact that he gave you a background against which I would like to have you consider Regulation W.

I think we must first remember that the Republic is faced with the greatest crisis in its history. The dangers that beset our future are tremendous. The difficulties are great. Unquestionably we are engaged in an all-out effort. No longer are wars

declared; they come about. We are in one not of our making. We are faced with a hostile theory of government. There is not room in the small world of today—a world in which distance and time have been eliminated—for the Nazi theory of government and our own theory to live at one time. How long that effort will be, none of us knows. The choice seems to me to lie between a long and a short effort. If the destruction of all that the present Nazi Government stands for and all that is inimical to democratic government is to be achieved within any reasonable time, it requires an all-out effort in every sense. I do not believe it probable that many of our citizens would have believed a few years ago that we were so close to such an effort, and I believe that until recently there has been little realization of what this will require. If it is to be a long effort, and it may have to be, our whole economy will be involved, and I agree with Professor Sly that, whatever the nature of the war, so far as we are concerned, so far as our economy is concerned, we are already into it, way into it, and we will be a long time getting out. The advantage obviously lies in making it as short an effort as possible, because the further we go, the greater the difficulties that will develop. How short we can make it, only time will tell.

As one of the problems facing us today, we must consider inflation. Historically, inflations usually have followed wars. In the six years that I have been in Washington, I have never found all the agencies of the Government so completely united in any cause as they are today in their determination to prevent inflation, if it is humanly possible to prevent it. Again we have no way of knowing whether that can be done. Of course we are going to try every possible device that might prevent it, because its cost to our country, to our economy, to our standard of living, will be disastrous if it comes upon us. It not only will greatly increase the cost of the defense effort in what the Government will have to pay for what it must buy, but it will completely demoralize our economic system. We must remember that the tremendous governmental expenditures incidental to the defense effort, creating jobs and raising the national income, is resulting in a rapidly increasing demand and ability to pay for a diminishing supply of things the people want to buy. If that won't run up prices, I don't know what will. They are already rising rapidly. There would be no problem if we could increase civilian production to take care of a rising national income, but after all our plant facilities are limited; the supply of steel and labor, especially skilled labor, is limited, and we are in an all-out effort, a great defense effort; therefore we cannot hope for many years to see civilian production increased to a point where there will be adequate goods to meet a demand that is so rapidly increasing. In such a situation, the Government

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must not overlook any possible means to the end both of the defense effort and of preventing inflation. In such an atmosphere and at such a time, Government becomes an increasingly important factor, with which all must deal.

It is rather interesting and might repay your study, if you will look at what has been recently done in Canada about consumer and installment credit. Their statements, their press releases and their regulations reflect some of the experiences we have already had, but I think you will be impressed, as I have been impressed, with the idea that Canada has gone much faster, much further in this regulation than we have done. This again, to my mind, illustrates the increasing role of Government as a country gets further into a war effort, because Canada is further into it than we are, and therefore when Canada attacks the problem of consumer installment credit, it moves much more rapidly.

Now why are you people concerned with any part of the problem that I have stated? You are concerned with it because, as part of this anti-inflationary effort, our Government is attempting to regulate consumer credit, and, as Mr. Morris said, you gentlemen are the founders, the originators in large part, of the idea of consumer credit, and therefore you have a great stake in what is done.

There are three obvious reasons for regulating installment and consumer credit. I am using those two terms rather interchangeably, because they are so closely related that it is impossible to use one term in connection with this regulation without at times meaning both. The first reason is the most obvious of all: The Government wants to curb the demand for these consumer durable goods, the materials of which are essential for the defense program. The second is that there must be an effort to dampen consumer demand to prevent inflationary price rises. The third reason for doing anything at all about consumer and installment credit is the effort to create a backlog of purchasing power that can come into action when the post-defense period is reached. This was an important reason for Regulation W, and undoubtedly we will find in the course of time that this has been accomplished.

It seems to me that ultimately we are faced with decisions which the Board has not made, and I would like at this point to say something I might have said earlier. The Board is never bound by anything that any one member says. It only speaks as a Board, so that any one of us is free to say what he individually pleases, but we express our individual views when we speak, and no one of the members of the Board is ever bound by what some other member says, unless he is quoting what the Board has already done. It seems to me that ultimately we face these decisions: Should the volume of consumer and installment credit be held at its present level? Should the total be reduced? Should

the present total be allowed to increase somewhat in relation to a rising economy? I think that finally, at some point along the line, decisions on these questions will have to be made. It must be borne in mind that in the whole field of credit control, action can be taken predicated on the most careful research, the most careful consideration of available statistics, after conference with the people involved, and with reasonable assurance that the action will produce a certain result, and such action may well produce wholly unpredictable psychological effects. Therefore, I am inclined to believe that as of today, what has already been done may have produced more results than might have been anticipated at the time the regulation was promulgated. I do not know that we have adequate statistics on which to base a conclusion as yet, but I am inclined to believe that, as you move into any field of credit control, there are certain imponderables, certain intangible factors involved which you cannot prejudge accurately. Human nature reacts to what Government does, at times, somewhat beyond the exact letter of the regulation, so that I think when ultimately we come to consider what are our major objectives, what we want to accomplish, there will always be before us the question: Is the present volume of consumer and installment credit too large, not large enough or just about right? That has not been a part as yet of the consideration of this problem.

Now why, if it was necessary in the opinion of the Government to regulate installment purchases, should we have stepped over and attempted to regulate consumer credit? I rather imagine that all of you know the answer. In the first place, the volume of consumer credit is an important factor in inflationary periods. In the second place, if you regulate installment selling very strictly, unquestionably the man who would otherwise have bought on the installment plan will step over somewhere to some lending agency and borrow the money on the installment plan and go out and purchase the article with the cash resulting from his loan. Mr. Morris was very kind in what he said about the conferences we had in Washington with the trades involved. On the other hand, I think we have obtained extraordinarily fine cooperation from all those trades. I do not believe that the cooperation would have been half as effective as it has been had the vendor not believed that the lender would be put under the some restriction, under the same regulation, and that both would be treated fairly. Lending and vending are too inseparably connected to be divorced in this regulation. Again, the reason for regulating consumer installment credit is that history teaches us that, as the national income increases, as people have more money to spend, they incur more debt. On the face of it, that would not seem probable, but, if the records are at all credible, that has been the case, so that

this regulation is an effort to curtail and curb spending at a time when too large a volume of installment buying or consumer credit is not desirable in the public interest.

While there was a reason for putting a check rein on borrowing, I do not want any of you to have the impression that we had any exaggerated idea as to what this regulation can do in the way of preventing inflation. At best, it is but little. It is necessary to implement other efforts of the Government. If inflation is to be prevented, there are other methods that the Government must use and use promptly and wisely: Taxation, of course; priorities; allocations—perhaps, at a point, rationing; price control; a fiscal policy adapted to the existing difficulties of the present situation. All of these things supersede the regulation of installment and consumer credit as implements in the hands of the Government to do this particular job. But it was felt, if there were to be price controls, allocations and priorities along with an increasing public income, creating greater demand for the things to be sold, that without some regulation of this type of credit, there would be a tremendous increase in such credit, and that undoubtedly is not now desirable.

There is another point that should be made. This is not an effort in any sense to prohibit installment or consumer credit. That type of credit has served a tremendously useful purpose in our country. Properly used, properly timed, I know of nothing that can contribute more to the standard of living than that type of credit. But timing is most important, and therefore there is that additional reason for the Government's stepping in at this point.

It may have occurred to some of you gentlemen to wonder why the Federal Reserve System was picked to administer this regulation. It was felt by those who had to make the final decision that they should use an existing agency having primary responsibility with respect to the determination and administration of credit policy. There was some advantage in using an agency with some twenty-five years' experience in the credit field. The Federal Reserve System, like every other living organism, is always developing; it is not static; it has to be dynamic to go on, and there has been a slow but sure evolutionary process in its entire history, until today we find that from the results of experience it is recognized that the System has a major responsibility to contribute to the formation of a national credit policy. That, perhaps, really is its principal reason for being just at the present time. Therefore, it was felt that, if this type of credit had to be regulated, it would be desirable to turn it over to an agency already at work in the broad field of credit.

There are three types of credit control, and I think you gentlemen, as bankers, have a great stake in considering what is to be the final form of that

control. The first and oldest is the general or over-all system of influencing the volume of credit—the use by the System of the discount rate, open market operations and reserve requirements. These are controls that operate on the whole banking system, where banks are members of the Federal Reserve System, and are components of a general functional method of credit control. Every one is affected alike by what you do. If you gentlemen have a feeling at the present time that we may be curtailing your expansion of credit, I would like to remind you that we have at present tied up in banks that are members of the Federal Reserve System something over nine billion dollars in required reserves, which would be subject to quite a substantial expansion if these banks were free to use these reserves and if the demand existed for their use. We have only recently reduced the expansive power of reserve funds from about twenty-nine billions to nineteen billions. We have done that since we formulated Regulation W, so we are not operating alone on you, but we are restraining credit to the member banks of the System by this over-all method.

The second method of regulating credit by the Government is known as the direct method, where you go into the individual bank and through the processes of supervision attempt to tell that bank what it may do. That is seldom used and is not particularly effective in the over-all picture.

The third, the one under which Regulation W comes, has become known as the selective method; that is, you select some particular type of credit and attempt to restrict the volume of that particular type of credit. One of the early instances of such control in our country came about when Congress directed the Federal Reserve to regulate margin requirements on stock market collateral. The Morris Plan banks, so far as they extend credit on stock market collateral, are under that regulation and have been for some time. Somewhere between 1924 and 1929, looking at the expansion of credit in the stock market field, the Government commenced to think that some selective form of credit control would have to be applied, and our Regulations T and U are the outcome of that. I also have a feeling that perhaps this power to differentiate in the selection of methods of credit control may have implications that deserve the type of study suggested this morning by Professor Sly. It may be that you would find in such a study that a selective method may be not only the most effective but perhaps the most acceptable. That, I do not know. That is certainly an open question. It appears perplexing; is intensely interesting and is going to affect the whole banking system in the course of the next few years, and just such a study as he suggested would be a help to those in Government who have the responsibility for what is done. Those decisions will have to be made and preference will

have to be expressed between these different methods of controlling credit over a period of many years. Men like Clark, Nugent and Riefler devoted a great deal of time and study to consumer credit. Their studies have been invaluable to us in the present emergency.

We were giving study to the subject of selective controls before the present emergency. A resolution was approved by the Senate on August 4, 1939, looking to an over-all study of the whole problem of banking, and we were considering all of the questions involved in such a study following the passage of this resolution. One of the questions that had to be considered was the necessity or desirability of some form of regulation of consumer and installment credit, so we had some background of the problem before we found ourselves faced with the task of formulating a regulation under the Presidential Order. The President's Order of August 9, 1941, necessitated a regulation, and we only had a brief period in which to formulate this regulation, but we did have some advantage in that we had been giving the problem study in an academic sense for quite a few years.

As speedily as possible we formulated a regulation, but before issuing it we called upon all the trades that would come under the regulation to send representatives to Washington to discuss the matter with us. We realized that time was short, but it never would have done to have let the President's Order stand without a regulation, because of the situation that might have developed in the interim. This meeting with the trades was most satisfactory to us. We put the regulation before these groups. They were frank and helpful in their discussion, and out of that grew the final form of the regulation as first promulgated.

One question came up that has never been settled to my satisfaction. We knew we had to reach the trades. We did reach them, as I say, but what were we to do about the consumer—the buyer of these goods—the housewives, who are the principal users of installment credit? We could never quite find out how to reach that group of people. This group represents many millions, almost as many as Mr. McFadden says you gentlemen deal with. (Laughter). A professional consumer group was not exactly what we wanted. It is an obvious conclusion that we are all consumers and the best way to reach the people of this country is to give the matter the widest possible publicity, and therefore we turned the regulation over to the press at the time we first presented it to the trades and before it was actually issued, and they kindly gave it wide distribution and gave us an opportunity, through this means, to get some response from the consumer group, though never enough to satisfy me. Actually we have not had enough direct contact with consumers to satisfy me. The only hope

I have that we can finally establish and maintain the right sort of public relations with this enormous group is based on the fact that the administration of the regulation is decentralized in the twelve Federal Reserve Banks and their twenty-four Branches. This gives us a nation-wide coverage of thirty-six institutions actually administering the regulation, and it is possible for them to reach an enormous number of people and find out whether the regulation is fair and just, not only to the businesses involved but to the people with whom those businesses are dealing, and I think that only in that way can we hope to get as wide a knowledge of what are the rights of the people, whose buying and borrowing we are regulating, as I would like.

We announced at the first meeting that the regulation was subject to amendment whenever we found out that it was not doing what we wanted it to do. We have already amended it several times. We propose to amend the regulation constantly during its experimental period, seeking always to carry out the objectives of the President's order and trying at all times to be as fair as possible to the consumer and trades involved. We do not seek to upset existing trade practices. In that connection, as Mr. Morris knows and several of you gentlemen present at these meetings know, we took the position from the beginning and still adhere to it that we are not engaged in writing fair trade practice codes, and I hope we never try. In the first place, it is difficult to regulate consumer installment credit. In my opinion, it would be utterly impossible for us to assume that we will clean up bad practices in the trades involved under this regulation. You gentlemen are fully capable of doing that, each in your own trade, and if we once became involved in such an undertaking, we would be lost in a bypath, out of which I do not see any way that we could escape.

Again, I would like to say that we are proceeding on the trial and error method. We have nothing else on which to proceed. We will make mistakes. We have made them. We will correct them whenever you can satisfy us that they need correction. We also need tremendous additional research in this field. We need better, more accurate, fuller statistics than we yet have had. We have done an administrative job, but we have a research job that is just as important, because, as Dr. Sly told you, only on sound research can you base sound administration; that is absolutely necessary. With your help and the help of the other people involved, we hope to get to that before long.

Finally, the decisions regarding this regulation are decisions made by a Board, not by an individual. At present, the five members of the Board of Governors of the Federal Reserve System must reach, by a majority decision, a conclusion on any policy involving the administration of this regulation. It is not an administration of any one man.

It is administration by a Board aided by its staff and by the staffs of the thirty-six institutions composing the Federal Reserve Banks and their Branches. Again, I thank your Association, your officers and your members for the very great help you have given us in our difficult task.

(The members arose and applauded.)

PRESIDENT STOUT: We are thankful to Governor Ransom for that message, giving us the background of the regulation which has become so much a part of our daily lives. We are not only gratified to have that message and have it from the source from which it came, but we are honored by his presence with us. We know from past experience that when you get into the cross fire of question and answer, you are likely to get into trouble. On more than one occasion I have been on the receiving end, where dodging the problem requires quick thinking. There is no limit to the time to which such a discussion may run, but I am going to interrupt the program for announcements to be made at this time.

Is there any announcement from the Golf Committee? I have a telegram from the chairman of that committee, Mr. Braun, regretting his inability to attend.

I regret exceedingly my inability to be with you due to a severe cold. It was very difficult for me to cancel my plans as this is the first Morris Plan national convention I have missed since 1915. Please extend my best regards to all present and convey my sincere wishes for a most successful meeting. **FRANK J. BRAUN.**

I know we are all sorry indeed that he cannot be with us, and since he cannot and he was going to handle the golf tournaments, he turned over his plans and ideas to John Hollenbeck. Have you any announcement to make, Mr. Hollenbeck?

MR. JOHN HOLLENBECK (Springfield, Ohio): No, I have not. We will have some tomorrow.

PRESIDENT STOUT: Is there any announcement from the News and Publicity Committee?

MR. RAYMOND W. HARTLEY (Providence): I have nothing to say at all except that the situation is well in hand.

PRESIDENT STOUT: Mr. Small?

MR. HARRY E. SMALL (Cleveland): I would like a meeting of the Nominations Committee at 6 o'clock in the Band Room.

PRESIDENT STOUT: Resolutions Committee, Mr. Wise.

MR. RAY E. WISE (Dayton): I would like to meet with my committee tonight at 6 o'clock.

PRESIDENT STOUT: Sectional Associations; Mr. Kenney. (No announcement.)

PRESIDENT STOUT: Entertainment Committee.

MR. ROYDEN C. BRYAN (Wilmington, Del.): Those who have not made any reservations for the historical tour, will please see me. The hotel provides transportation for eighteen or twenty people; if there are some others who have their cars and will drive them or permit us to put some passengers in them or find some one who can drive them, we will be very glad to have three or four more cars. The tour will leave the hotel at 2:30.

PRESIDENT STOUT: I am asked by the management of the hotel to announce that all those who are not traveling by private automobiles and have not completed the transportation arrangements for their departure, will please do so as soon as possible. These arrangements should be made at the transportation desk in the hotel.

Immediately following this meeting, we will have the official convention photograph on the steps.

The Board of Governors meeting will be held at luncheon in the private dining room. That is a very important meeting and I hope that everybody will be there.

Now, with apologies to our next speaker for that interruption, I want to introduce to you Mr. W. Pollard Turman, who has graciously come here from the Atlanta Federal Reserve Bank, of which he is counsel, to answer your questions, and, as I said before, God be with him if he gets some of those that have been thrown at me. We are glad to have you here, Mr. Turman. (Applause).

Questions and Answers on Regulation W

MR. W. POLLARD TURMAN: Mr. Chairman, Ladies and Gentlemen: I feel tremendously honored to have this opportunity of meeting with you today. I have attended one or two of the group meetings of the Morris Plan Bank and have enjoyed them very much. I realize, of course, as your President has stated, that I am a marked man, but I am sure that the shots will not be vitally aimed, as Mr. McFadden was discussing the subject earlier today. A friend of mine, a practicing attorney in Atlanta, saw me on the street just after the regulation was originally issued, and he said, "I have got a client that is subject to that W business; will you send me a copy of it?" I said, "Of course I will be glad to," and when I got back to the office I sent him one. I got a very nice letter next day in which he said, "I appreciate your sending me a copy of regulation W, but you failed to include the Rosetta Stone with it." (Laughter).

I am sure that it would be imposing on you to discuss the provisions of the original regulation. I think you would be interested, however, in a brief review of the recent amendments that become effective December 1, and so if you have no objection, I would like to outline them briefly, and then go into a forum discussion of any problem which you might have.

Amendment No. 2, effective December 1, includes in the definition of installment loan credit, installment loans that are for \$1,500 or less rather than \$1,000 or less, as originally prescribed. In addition, the minimum down payment that might be required, if it is \$2 or below, need not be obtained. The minimum monthly payment of \$5, as set out in Section 4 (e) and 5 (c) has been omitted. Installment loans, as I stated, of \$1,500 or less, and obtained for the purpose of purchasing listed articles, are subject to the same restriction as loans secured by listed articles; that is, the amount may be only the maximum credit value of those listed articles and not more than eighteen months' maturity. After January 1, 1942, a purpose statement is required for all installment loans of \$1,500 or less. Between December 1 and until January 1, when the Board of Governors will place in your hands the purpose statements, you may use any statement that contains that information as set out in Section 5 (d) of the amended declaration. Section 5 (f) now provides that installment loans for the purpose of making down payments are prohibited. That probably closes up a possible injustice that might have existed in the original regulation. Section 6 (a) was further amended so that loans to finance construction or purchase entire residential or other structures are exempt along with those loans that are secured by first mortgages on real estate.

Section 6 (1) now exempts business loans for operation purposes, not for the purpose of purchasing listed articles. Section 8, which deals with revisions or renewals and consolidations, has been the section that probably you have had the most difficulty with thus far. That was to have been effective November 1. Under Amendment No. 2 the effective date has been postponed until December 1, 1941. An amended section, 8 (b) takes care of the question of add-ons, so that now add-ons may be treated in one of two ways: the add-ons may be considered as a separate transaction or consolidated so that the re-payments are at least as large as the original credit and that the credit will be repaid within fifteen months from the time of the consolidation. A statement of necessity still may be obtained—in good faith—to prevent undue hardship, and the maturity in that event is eighteen months from the date the statement of necessity is obtained. That, of course, is the same as was originally stipulated, though the section has been revised as to wording. Section 9 (f) is a new section regarding loans to farmers, and it stipulates that they may be obtained in any manner if the loan conforms to the amount and to the maximum maturity and at least one-half of the loan is to be repaid within one-half of the maximum maturity applicable.

Those are the high lights of the amendment No. 2, effective December 1. I thought you would

be interested in having me mention them briefly. If there are any questions on those, of course they will be in order and if there are any questions on the original regulation, I will be pleased to attempt to answer them.

PRESIDENT STOUT: I know there are a lot of questions floating around here because we get something like twenty-three or twenty-four a day. Now you have the final authority right here in front of you.

MR. TURMAN: Not the final authority. I have a good backing here, undoubtedly, but remember that Mr. Ransom said that what the speaker said personally did not bind the Board. I will say this, the banks are attempting to give these interpretations: first, those that have been issued by the Board of Governors, and upon official ruling. They number some hundred and six. We have also attempted to assist in interpreting provisions, although they have not been ruled upon by the Board, if we feel that we are reasonably correct in doing so, and I would say that if there has been a ruling by the Board of Governors, I will attempt to call your attention to it and quote it, and if it has not been ruled upon by the Board, I will attempt to explain it if I feel that I am not over my head, and if I am over my head I will get the Board of Governors to clarify it for us. Don't you think that is a fair statement?

PRESIDENT STOUT: Do you think you can quote a hundred and six rulings? (Laughter).

MR. TURMAN: I saw several people looking at that brief case when I brought it up here. No, I am not going to read a hundred and six rulings.

MR. E. G. BREEDLOVE (Jacksonville): I would like to ask a question in regard to installment buying and add-ons. Do you mean to say that a man who had an account, five months, of restricted items and made purchases and bought something else, that from that date on his revision was set up for fifteen months? But from that date on it would make the contract run for fifteen months regardless of the length of time it had run before?

MR. TURMAN: Yes, provided the amount of the monthly payments was not decreased by the consolidation.

MR. BREEDLOVE: The next question is in regard to these outstanding items; in other words, a man comes into our bank and has a loan with another bank, and this is subsequent to September 1; he has had it for five months and he wants to borrow from our bank; what would be the proper handling of that particular loan? The customary time with our bank is twelve months and he has an eighteen months loan at the time.

MR. TURMAN: You can make any negotiation with your customer that you see fit to make, if the maturity is less than the regulation would require; your problem is covered under Section

8 (c), which says that "Any extension of installment credit, the proceeds of which a registrant knows or has reason to know will be used in whole or in part to reduce or retire any extension of installment sale credit or installment loan credit not held by such registrant, shall be subject to the requirements of Section 8 (a) or 8 (b), including the provisos thereof, to the same extent as if the obligation being reduced or retired were held by the registrant." So you might then revise his obligation in any manner that you could revise it under the regulations if you had made that original extension of credit. Now if you have an extension of credit that is held elsewhere by your customer, that is, a twelve months contract, I take it you would be permitted to advance him the money to retire that credit elsewhere and you could then set it up in any way that you wanted to, so long as it did not go beyond the eighteen months period from the original extension of credit.

MR. WILLIAM A. DEWEES (Waterloo): Taking advantage of Amendment No. 1, if a man were to renew a loan held by his own institution or another institution and made it for fifteen months, and then subsequently wanted to add on and make another loan, could he continuously do that, if he did not make the maturity date exceed fifteen months, that is, carry it on to the second and third generation?

MR. TURMAN: If the obligation is taken over by your bank and the obligation elsewhere is retired, then you would have the eighteen months period from the original extension of credit by the other bank, within which to make any revision you see fit. When you come to the question of consolidation under option 2 of section 8 (b), you might reorganize and consolidate that obligation with a new advance provided the monthly payments were not less than the original obligation stipulated and they were set up in such a way that the entire consolidated obligation is paid out within a fifteen months period.

MR. DEWEES: If you go beyond that, let us say at the end of ten months you wanted to renew that and then add more to it, could you take that for another fifteen months?

MR. TURMAN: Your consolidation? Yes sir, you follow the same standard you did at the time of the first consolidation.

MR. DEWEES: And you can do that a third time?

MR. TURMAN: Yes, sir, but I believe you will find that it will work out practically because of the amount of the monthly payments that will be required.

MR. JESSE F. STRENG (Louisville): Installment loan credit under \$1,500 is limited to eighteen months; therefore if a man wanted to purchase unrestricted articles, the credit could not extend beyond eighteen months; would there be any

restriction in installment sale terms in the purchase of that article if it is under \$1,500, extending over eighteen months? Is there any restriction on installment credit?

MR. TURMAN: All installment sales secured by a listed article—

MR. STRENG: I mean an unrestricted article.

MR. TURMAN: I do not think the regulation covers the sale of an unlisted article.

MR. STRENG: It would cover the installment loan credit.

PRESIDENT STOUT: The point he is making is that the lender would be handicapped by the regulation but the borrower would not, on unlisted articles. Is that correct, or not?

MR. TURMAN: Well, I think that is correct. The purpose statement is to take care of just that situation. Is not that correct, Mr. Ransom?

MR. RANSOM: The purpose statement is desirable for several reasons. If there be a change in the installment terms; suppose that instead of eighteen months an automobile must be bought on fifteen months, then cash lending, in order to conform, would have to be on the same terms. As I understand your question, however, you ask if unlisted articles could be sold on any terms that the seller chose to sell them. Yes, because that type of call is not regulated.

MR. STRENG: It would affect the lender but not the borrower.

MR. RANSOM: Yes. Your point is this, that if the borrower came to you and said, "I am buying unlisted articles; can I get as long terms from you as I could from the merchants?" Your answer would be no, if the vendor's terms exceeded terms required for listed articles. That is a problem with which we may have to deal in the future.

MR. STRENG: There is a movement, an intensive movement in the local groups and the FHA for the rehabilitation of old property; does an exception have to be asked for each individual application?

MR. TURMAN: The provision for defense housing is found in Section 6 (e).

MR. STRENG: They are starting a mass movement, groups coming to Washington from FHA to try to induce people to cooperate in this movement. I want to know if, in each case, you have to get an exemption from Washington?

MR. TURMAN: I think that that matter has been placed in the hands of the Regional office of the Defense Housing Coordinator.

MR. RANSOM: If the field representative of the Defense Coordinator certifies that it is a definite modernization housing project, necessary for the defense program, that clears it up, as I recall.

MR. TURMAN: But I do not know of any general over-all authorization that has been issued, so that each specific case would have to be

presented.

MR. RANSOM: The Defense Coordinator has indicated in advance the defense areas within which specific exemptions will be granted.

MR. STRENG: This is not a defense area.

MR. RALPH W. PITMAN (Philadelphia): I would like to ask Governor Ransom a question. In Philadelphia, Wanamaker's have what is called a revolving credit; if you go into their store, they will approve your credit let us say, for four hundred dollars. If, during the next month, you reduce that \$400; supposing you have used up your \$400 credit, you reduce it, let's say \$30, you may then go in and buy \$30 more of merchandise. I am talking about non-listed articles. They call it a revolving credit. The result is that they are in the banking business in a big way, so that it is a loan that is never paid off. It certainly has possibilities, in my opinion. They are much more dangerous than a lot of other extensions of credit; they have hundreds of thousands of dollars tied up that they will never get back on that basis. I would like to ask if there is any intention, on the part of the Federal Reserve Board, to regulate that sort of credit?

MR. RANSOM: It is not now subject to Regulation W. Of course it is possible that, in the light of future developments, it may become necessary to regulate book accounts, but it is not now under consideration. In the particular instance cited—that of a man with a revolving credit of \$400 who wanted to buy a refrigerator, the transaction might actually be an installment sale. If so, it would be subject to regulation. The facts of the case would determine that. The Canadian list is very much longer than ours. It lists many times the number of articles that we do. One reason why we started with a small list was because we felt experience was needed before we got into too wide an area. We took those articles most obviously within the defense program. It is possible that finally the list may be longer and possibly even include some regulation of book accounts. Naturally we don't want to start widening the area any sooner than we have to and only in the light of experience and changing conditions.

MR. W. G. AVERY (Schenectady): Suppose a banker makes a three months loan with no definite understanding about re-payment at the end of three months; you know in your heart that he is not going to pay that off at the end of three months; is not that contract an installment loan?

MR. TURMAN: I knew that question was coming. The Board has issued a ruling on that point. That is W 47. If there is a loan made payable at a fixed date and there is an agreement or understanding between the lender and the borrower that it will be paid in fact in installments, that is regarded as an installment loan, subject to the regulations; but if there is no agreement or

understanding and there might subsequently take place renewals, it is not necessarily subject to the regulation. It is however a very delicate question.

MR. RANSOM: It seems to me that one of the amendments regulating loans for business purposes may take care of some of the questions now perplexing commercial bankers. I would not have had any difficulty at all in determining, if a man came in to make a thirty, sixty or ninety day loan, whether it came under this regulation. Most of such loans are renewed, certainly in part, but there is seldom any preliminary agreement or understanding that they will be renewed; if there is, it would come under the installment regulation, but I think the exemption of loans for business purposes by this new amendment may get rid of a great many of the cases in the commercial banks. While the amendment may not be so helpful to you people, as I understand most of your loans are not for business purposes, I believe that any banker making a loan of that type can determine it to his own satisfaction.

A MEMBER: I was wondering if there were some liberal interpretations?

MR. RANSOM: The final answer may depend on the volume of loans shifted from installment lending to the banking basis of 30, 60 and 90 day paper.

MR. MALCOLM C. ENGSTROM (Richmond): In Virginia we have had some little experience with these defense housing loans, and we secured from the Federal Reserve Bank of Richmond a series of the forms that have to be completed by both the borrower and the lending institution, and our instructions are to have those executed by the borrower and the lender and sent to the Federal Reserve Bank, and if they are in order they can be returned to us and the loan can be made without resort to Section 16. I think the few we have had took just about a week to get completed and returned.

MR. TURMAN: It would require that action be taken in each specific case.

MR. ENGSTROM: Yes, action has to be taken in each specific case. The regulation itself refers to the fact that no given area will be named as a defense area, but each specific loan or account has to be designated as a part of the defense housing program.

MR. RANSOM: The reason for that was that it immediately became apparent that the entire United States was going to become a defense area. Actually one of the difficulties we have encountered and continue to encounter is the necessity for forms under this regulation. We are very reluctant to give anybody additional burdens in the way of filling out forms. On the other hand, we are administering a statute; the penalties under it are severe; therefore the language in the regulation does have to be legal and clear; it has to be as

precise as we can make it; the forms must be complete enough to protect the lender and the vendor as well as the customer. That is a necessity. There is not any way to get out of it and we are trying to do the best job we can in making the forms as few, as short and as simple as we can. We have under consideration the problem of a registration form. It has to be issued soon and we have been working continuously and have advanced that form from a very alarming looking document when I first saw it, and one I would have approached with a good deal of fear and trembling had I been on the filling-out end, to one which at the present time is very much shorter and I think simpler. It probably will be improved, but that is one thing you cannot escape under regulations of this kind—imposing on those subject to regulations. I didn't know before that it took four forms to declare a housing project in the defense area, but if the Richmond bank tells you that, I am sure they are correct.

MR. ENGSTROM: In Section 5 (d) we come to the famous statement of borrower, a form prepared and prescribed by the Board. I have been informed somewhere that, while the regulation itself does not indicate that a copy of that statement must be given to the borrower, nevertheless the statement itself will carry a certification from the borrower that he has received a copy of it. Do you know whether or not the lending institutions will be required to give a copy of the statement to the borrower?

MR. RANSOM: I do not know whether or not that will be required. Some state statutes may require it. There is a question I would like to ask you gentlemen. The form of the purpose test can either be negative or positive; it can state as a fact that the purpose of the loan is not to purchase or make a payment on any of the listed articles; it can be positive in stating the purpose for which the money is borrowed, leaving the lender and the government to determine whether or not the purpose is one which comes under the regulation. The form can be mandatory in that it has to be a form prepared by us and used by the lender in each instance. Now my own personal preference would be for a permissive, negative form of purpose test. I may be the only man connected with the Federal Reserve System who feels that way about it; I do not know. Probably therefore that is not what you are going to get. At the same time there are very difficult questions involved, and I think that we will benefit from a good deal of consultation before we finally reach a conclusion on that point. It seems to me, however, that the borrower is entitled to a copy of whatever he signs if he wants it. I should think you would want that for your own protection, because if he certifies that he has received a copy of it, then he is on notice. Of course it might be possible, under

this regulation—this is a legal question and I only suggest it as possibility, maybe Mr. Turman will tell me that I am wrong—it might be possible to put the entire responsibility on the lender, exonerating the borrower from any responsibility other than what he may owe to the lender for making a false statement; in other words, instead of involving many millions of people in making a statement about which they may have some uncertainty, we may just say to the lender, "You have got to be sure that the man makes a correct statement." All those measures are still under consideration, but I would like to ask you people what form of statement you would like to have used? Now Mr. Morris and I have discussed this on other occasions, and I think I know his views pretty well. I would like to ask specifically which form of statement you would like to use? Would you prefer a negative or a positive statement?

MR. ENGSTROM: That is a little difficult to answer. My only point about giving the borrower a copy of the statement is primarily a practical one; it will be necessary that our loan officers keep a carbon there on the desk, and it would be a very cumbersome arrangement. As to the responsibility of the borrower and the certificate that he receives a copy, I would like to say that when a borrower signs a note he does not get a copy of the note he signs.

MR. TURMAN: He does not often read the note.

A MEMBER: If he did, he wouldn't sign it. (Laughter).

MR. RANSOM: The difficulty of course is that in the instance of the note he generally knows what he is signing. He is not incurring the liability of a fine and possible imprisonment; he does not read the note but he can have a copy of it if he wants it. Someone says if he did read it, he might not sign it, but this is a somewhat different problem; the man who signs that statement is incurring responsibility under a Federal statute. Therefore I rather think that good relations, so far as we are concerned and so far as you people are concerned, might be on safer ground if, by any device whatever, we could say to the borrower, "You are under no legal responsibility in the matter, we are relying on the lender. You think the borrower is a responsible party or you would not be lending him money. I do not know whether it is possible to let the borrower escape entirely any responsibility in the matter of this statement, but if he is to face the possibility of fine and imprisonment, he certainly is entitled to go off with a copy of what he has signed if he wants it.

MR. ENGSTROM: I can see that all right.

PRESIDENT STOUT: You have him facing that already, haven't you, Governor, under the statute against obtaining money under false pretenses?

MR. RANSOM: If he makes a false statement.

PRESIDENT STOUT: I know my first reaction is that you are right, you are going to have to follow this to a conclusion. As it is, I am going to attempt to answer, insofar as the conferees who met in Washington are concerned, the inquiries you make. We selected the positive form as our preference.

A MEMBER: So as to be in a hopeless minority.

MR. GEORGE M. CLARK (Chattanooga): It seems perfectly apparent that the confusion which is in evidence about this regulation may grow. In diversified operations, we have to have a Vice President in charge of interpretation and regulation, and if I have to be the operating head of my bank, I will have to give up. I do not have the close daily touch with our diversified type of lending to keep up, I am afraid, and so, for myself, I would like to have counsel who would always be available, and it may become worse. I think we are fortunate in having approached this very commendable government agency, but I wonder if there is any feeling on the part of the Federal Reserve Board that allocations and priorities are going to settle this thing to such an extent that all regulation is a tempest in a teapot? If we cannot get cars, as may happen, then why any kind of regulation as to how they are financed? Is there any feeling that allocations and priorities will solve this whole problem and eliminate the necessity for such regulation?

MR. RANSOM: May I try to answer that one? The original suggestion of this regulation came from a very important section of the automobile industry. Those people felt that instead of having priorities, allocations and a limited number of cars to be manufactured, that the whole problem could be controlled by regulating the credit extended on automobiles. I was skeptical about credit regulation producing such a result. If no new cars were manufactured at all, there would be a tremendous demand for cars already in existence and wouldn't there be great pressure to buy those cars at whatever price somebody might put on them? Now if you can limit that demand by

curtailing credit you certainly are indirectly affecting the price structure, which is part of what we are dealing with. If you answer that by saying that the price administrator could fix a price and that more could not be paid, then you would still have a question of credit, because under the existing scheme of things there is a considerable profit in the financing of automobiles. The tendency would be to stretch those payments out indefinitely, because the seller would gain a profit on the financing that he might not gain under price control. So I do not see how it is possible, under the scheme of things under which we are living today, to hope to escape this type of regulation, but when you speak of perplexities, you simply point out what I tried to say a while ago; namely, there may finally be a choice between some method of over-all credit control and a series of highly selective controls.

PRESIDENT STOUT: I am loath to bring this meeting to a close, but we must do it. I want to express to you, Mr. Turman, our frank and sincere hope that you can stay over and be with us during the rest of the convention, and particularly that you and Governor Ransom will be with us tonight when we get into a round table discussion which will inevitably head back to Regulation W. It goes without saying that a similar invitation is extended to the other speakers.

MR. TURMAN: I have attended several forums on Regulation W and I have never been able to shift the responsibility of them over before. It was unintentionally done, but I have enjoyed this discussion more than any of the other discussions I have ever had. (Applause).

PRESIDENT STOUT: I think it is only fair to say at this point what I had intended to say in the presidential address. With it I am sure you will agree after listening to these two gentlemen; that is, that if we must be under the control or semi-control of a governmental body, thank God it is in the hands of these intelligent, understanding and cooperative gentlemen. (Applause).

. . . After attention had been called to the Board of Governors luncheon and the Round Table Discussion the session adjourned . . .