

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 21, 1941, at 11:00 a.m.

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

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Thurston, Special Assistant to the
 Chairman
 Mr. Wyatt, General Counsel
 Mr. Parry, Chief of the Division of Security
 Loans
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Bradley, Assistant Chief of the Division
 of Security Loans
 Mr. Thomas, Assistant Director of the Division
 of Research and Statistics
 Mr. Cravens, Consultant in the Division of
 Security Loans
 Mr. Solomon, Assistant Counsel
 Mr. Dembitz, Special Assistant in the Division
 of Security Loans
 Mr. Bonnar Brown, Special Assistant in the
 Division of Security Loans

Mr. Ransom stated that immediately following the conference on August 15 the draft of proposed regulation on instalment credit control was released to the press for the purpose of reaching the largest possible number of persons who would be affected by the regulation but who were not represented at the conference, that numerous suggestions with respect to the draft were received from interested Government agencies and from representatives of the Federal Reserve Banks and the "trade", that a revised draft of the regulation had been prepared, after consideration of these suggestions, which was discussed at a conference yesterday afternoon with representatives of the Secretary of the Treasury,

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the Federal Loan Administrator, and the Administrator of the Office of Price Administration and Civilian Supply serving as the advisory committee created by the President's executive order of August 9, 1941, and that a further revision of the regulation had been made in the light of suggestions made during that conference. Copies of the revised draft of regulation were distributed to the members of the Board and Mr. Ransom said that copies of the revised draft had been sent this morning to the representatives on the advisory committee who were present at the conference yesterday afternoon.

Mr. Ransom then stated that he felt that following the determination of certain questions which would be presented at this meeting the regulation would be ready for adoption by the Board.

It was stated that if the usual procedure of the Board were followed of assigning letters to new regulations the proposed regulation would be Regulation V, and Mr. Ransom said that, because of the recent publicity given to the "V" for victory movement the assignment of that letter to the regulation might be subject to misunderstanding and that it would be his recommendation that the regulation be designated by the letter "W".

Unanimous approval was given to this recommendation.

There followed a discussion whether the regulation should be entitled "Consumer Credit" or "Instalment Credit".

It was agreed that, inasmuch as the executive order was entitled "Regulation of consumer credit", and the regulation

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issued by the Board pursuant to the authority of the executive order would not necessarily be restricted to the regulation of instalment credit, the proposed regulation should be entitled "Consumer Credit".

Mr. Morrill outlined the plans that had been made for printing at least 350,000 copies of the regulation to supply the needs of the Federal Reserve Banks which would distribute the regulation, and stated that orders had been placed with Judd & Detweiler and National Capital Press, as well as our own duplicating section, for simultaneous printing of the regulation, that arrangements had been made to send 500 copies by air to each of the western banks, and that additional copies would be placed in the hands of all of the Federal Reserve Banks as promptly as possible. He pointed out that considerable expense would be involved particularly because of the fact that the printing would have to be done on Saturday and Sunday. He said that it had been arranged for the Reserve Banks to contact interested State and national organizations with headquarters in the respective Federal Reserve districts and either through those associations or by the use of their mailing lists to send out copies of the regulation to members of the associations, and that every reasonable effort would be made by us and the Federal Reserve Banks to get copies of the regulation in the hands of all interested concerns.

Mr. Ransom then stated that in a conversation which he had with Mr. Nugent this morning the latter was very complimentary of

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the representatives of the Board with whom he had worked as a representative of the Office of Price Administration and Civilian Supply and felt that he had been shown every consideration during his work in connection with the problem of consumer credit control.

There followed a discussion of the changes that had been incorporated in the current draft of the regulation.

One of the matters discussed was whether certain agricultural loans should be excepted from the provisions of the regulation. Mr. Parry reviewed the discussions which he had had with representatives of the Farm Security Administration and the Farm Credit Administration and there was read a draft of a proposed section 6(k) of the regulation which would except these loans and which Mr. Parry stated would be agreeable to the two agricultural agencies.

On recommendation of Mr. Ransom, it was agreed that the exception should be included in the regulation.

Mr. Dreibelbis referred to the suggestions that had been offered that provision be made in the regulation to except transactions involving the lease by dealers of automobiles to contractors on Government construction projects as well as transactions involving the transfer of equities in automobiles from one private owner to another.

It was agreed that these exceptions should not be included as it was believed possible, in the event it should be found necessary to meet these situations, to handle the matter by formal rulings by the Board.

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Mr. Dreibelbis called attention to two new provisions in the regulation, one of which would become effective on January 1, 1942, and would require minimum instalment payments aggregating not less than \$5.00 per month, and the other would be effective until December 31, 1941, and would except instalment credit arising out of instalment sales of small amounts which were payable within a relatively few months.

These provisions were approved unanimously with the understanding the latter provision would apply to credits of less than \$50 payable within nine months.

Mr. Ransom referred to the discussions which had been had with representatives of the Office of Price Administration and Civilian Supply relating to the desirability of including instalment loan credits in the regulation and to the insistence of representatives of that organization that they be included. The regulation having been written in that form, Mr. Ransom said, the problem was presented of how to deal with renewals, revisions, and additions, which were covered in section 8 of the regulation. He added that he was inclined to the position that furniture might well be omitted from the listed articles but that the representatives of the Office of Price Administration and Civilian Supply felt strongly that it should be included and, therefore, it was in the draft now before the Board. Mr. Ransom made the further statement that the immediate question was the effective date of the first three paragraphs of section 8 and that Mr. Nugent had taken the

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position that the secondary controls contemplated by these provisions should be delayed until there had been an opportunity to discuss the problems involved. In connection with this point, Mr. Ransom read an informal note sent to him by Mr. Nugent this morning transmitting a rough draft of a letter commenting on the draft of regulation discussed at the conference yesterday and stating reasons for delaying the application of the regulation to renewals and revisions of, and additions to, instalment credit contracts. The rough draft of letter was read by Mr. Carpenter and Mr. Ransom stated that, while a delay in the effective date of the applicable provisions of section 8 would not meet entirely the objections of the representatives of the Office of Price Administration and Civilian Supply, he believed they would not raise any serious objection to that manner of meeting the immediate problem.

There was a discussion of the question whether a delay of sixty days in the effective date of these provisions of section 8 of the regulation would result in accelerated efforts to avoid the requirements of the regulation and it was the consensus that, while the delay would have that effect to some extent, it would not be particularly serious.

At the conclusion of the discussion of this point, it was agreed unanimously that the effective date of the applicable provisions of section 8 of the regulation should be made November 1, 1941.

Thereupon the meeting recessed and reconvened at 2:40 p.m. with the same attendance as at the morning session.

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Question was raised by Mr. Ransom as to whether the executive order should be included in the appendix to the printed regulation.

It was agreed that in order to emphasize the background for the regulation, the executive order should be included with a footnote making specific reference to the criminal penalties involved in violations of the regulation.

Reference was made to section 6(d) of the regulation which would except from the requirements of the regulation certain extensions of instalment loan credit the proceeds of which were to be used for bona fide medical, hospital, dental, or funeral expenses, and Mr. Parry pointed out that the inclusion of this section would constitute going a considerable distance toward a purpose test in connection with cash instalment loans.

Mr. Ransom referred to the objections that had been raised by representatives of the Office of Price Administration and Civilian Supply to the inclusion of a purpose test for instalment loan credit in the original regulation and said that they were not in favor of the inclusion of section 6(d), as was indicated in the draft of letter from Mr. Nugent referred to earlier in this meeting. Mr. Ransom stated that Chairman Eccles had felt strongly that the provision should be included, that he was in agreement with that suggestion, and that he would recommend that it be included.

There was unanimous agreement with Mr. Ransom's recommendation.

Following a consideration of the question whether the provisions relating to the

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written record of a transaction to be made by the creditor should be made effective on September 15 or October 1, it was agreed that the effective date of these provisions should be October 1, 1941.

Mr. Cravens raised the question whether the regulation reserved the right to the Board to examine records of creditors.

It was agreed that, while the Board had such right without expressly reserving it in the regulation, an appropriate provision should be included.

There ensued a discussion of the list of articles contained in the appendix and it was agreed that new household furniture should be included, but that floor coverings should be excluded. It was also agreed that mattresses of all kinds should be included.

After further discussion it was agreed that the maximum credit value assigned to household furniture and pianos and household electrical organs should be changed from 85 to 90 per cent.

Mr. Ransom stated that, while he was satisfied that the suggestions made by the executive committee of the Federal Advisory Council following the conference on August 15 had been given careful consideration, he would like to have read the letter received from Mr. Brown as Chairman of the Executive Committee under date of August 16, 1941. The letter was read by Mr. Carpenter.

Reference was then made to a draft of foreword to the regulation which had been prepared by Mr. Thurston at the request of Mr. Ransom.

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The foreword was read and approved unanimously in the following form, with the understanding that it would be made clear in the printed regulation that the foreword was not a part of the formal regulation:

"Regulation W has been adopted by the Board of Governors in order to carry out the President's Executive Order of August 9, 1941, which sets forth the necessity for and purpose of regulation of consumer credit, as follows:

"1. A large volume of credit is being devoted to financing and refinancing purchases of consumers' goods and services through extensions of credit that usually are made to individuals and to a large extent are on an instalment payment basis.

"2. The conditions under which such credit is available have an important influence upon the volume and timing of demand, not only for the particular goods and services purchased on credit but also for goods and services in general.

"3. Liberal terms for such credit tend to stimulate demand for consumers' durable goods the production of which requires materials, skills, and equipment needed for national defense.

"4. The extension of such credit in excessive volume tends to generate inflationary developments of increasing consequence as the limits of productive capacity are approached in more and more fields and to hinder the accumulation of savings available for financing the defense program.

"5. The public interest requires control of the use of instalment credit for financing and refinancing purchases of consumers' durable goods the production of which absorbs resources needed for national defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand, (c) to assist in restraining general inflationary tendencies, to support or supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer

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"debt structure that would repress effective demand for goods and services in the post-defense period.

"6. In order to prevent evasion or avoidance of this order and such regulations as may be prescribed to effectuate its purposes, means should also be available for regulating the use of other instalment credit and other forms of credit usually extended to consumers or on consumers' durable goods.

"7. It is appropriate that such credit be controlled and regulated through an existing governmental agency which has primary responsibilities with respect to the determination and administration of national credit policies.

"Regulation W is issued in the light of the foregoing considerations and as a step supplementing more fundamental governmental measures designed to combat inflationary developments.

"There will be changes from time to time in this regulation, particularly in the list of consumers' durable goods covered by the regulation, in the size of the minimum down payments required, and in the maximum length permitted for instalment contracts.

"Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank or the Federal Reserve branch bank of the district in which the inquiry arises."

In connection with the discussion of the foreword, question was raised whether reference should be made to the fact that neither the responsibility of the Board nor the objective of the regulation was to limit production but rather to exercise a restraining influence on the demand for goods. However, the opinion was expressed that if such a statement were necessary it could be contained in the statement to the press when the regulation was released.

Thereupon, upon motion by Mr. Ransom, the following resolution was adopted by unanimous vote:

RESOLVED, That Regulation W, Consumer Credit, be adopted in the following form to become effective as stated in Section 10 of the regulation:

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"SECTION 1. SCOPE OF REGULATION

"This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the 'Board') under authority of section 5(b) of the Act of October 6, 1917, as amended, and Executive Order No. 8843, dated August 9, 1941 (hereinafter called the 'Executive Order').¹

"The regulation applies, in general, to any person who is engaged in the business of making extensions of instalment credit, or of discounting or purchasing obligations arising out of extensions of instalment credit. It applies whether the person so engaged is acting as principal, agent, broker or otherwise, and whether the person is a bank, loan company, or finance company, or a person who is so engaged in connection with any other business, such as by making such extensions of credit as a dealer, retailer, or other person in connection with the selling of consumers' durable goods.²

"SECTION 2. DEFINITIONS

"For the purposes of this regulation, unless the context otherwise requires:

"(a) 'Person' means an individual, partnership, association, or corporation.

"(b) 'Extension of Credit' means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim on property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of,

"¹The Executive Order is printed in the Appendix. However, it has been the purpose to couch this regulation in such terms as will eliminate the need of cross reference to the Order.

"²The Supplement to this regulation lists the consumers' durable goods within the scope of the regulation.

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"any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

"(c) 'Extension of Instalment Credit' means an extension of credit which the obligor undertakes to repay in two or more scheduled payments or as to which the obligor undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or which has a similar purpose or effect.

"(d) 'Extension of Instalment Sale Credit' means an extension of instalment credit which is made, as principal, agent or broker, by any seller of any consumers' durable good specified in the Supplement to this regulation (hereinafter called a 'listed article') and arises out of the sale of such listed article. For the purposes of this section 2(d) a lease or bailment which is similar in purpose or effect to a sale shall be deemed to be a sale.

"(e) 'Extension of Instalment Loan Credit' means an extension of instalment credit, other than instalment sale credit, which is a loan (as distinguished from other types of extensions of credit) and which (1) is in a principal amount of \$1,000 or less, or (2) regardless of amount, is wholly or partly secured, or according to any oral or written agreement of the parties is to become so secured, by any listed article which has been purchased within 45 days prior to, or is to be purchased at any time after, such extension of instalment credit; but the definition does not include any loan upon the security of any obligation or claim which arises out of any extension (A) of instalment sale credit or (B) of instalment loan credit as defined above in this section 2(e).

"SECTION 3. REGISTRATION AND GENERAL REQUIREMENTS

"(a) General Requirements.--No person engaged in the business of making extensions of instalment sale credit³ or instalment loan credit, or engaged in the business of lending on the security of or discounting or purchasing obligations or claims arising out of such extensions of credit, shall make any payment or receive any payment which constitutes or arises directly or indirectly out of any such

³It is to be noted that the term 'instalment sale credit' includes only credit connected with the sale of listed articles.

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"extension of credit made by such person or out of any such obligation or claim lent on or discounted or purchased by such person, except on the following conditions:

(1) Such person shall be licensed pursuant to this section (any person so licensed being hereinafter called a 'Registrant'); and

(2) The Registrant shall not make any such payment or receive any such payment (A) if, when the Registrant made the extension of instalment credit, the Registrant knew or had reason to know any fact by reason of which such extension of instalment credit failed to comply with any of the requirements of this regulation applicable thereto, or (B) if, when the Registrant purchased or discounted the obligation or claim or accepted the obligation or claim as collateral, the obligation or claim showed on its face some failure to comply with such requirements, or the Registrant knew any fact by reason of which the extension of instalment credit giving rise to the obligation or claim failed to comply with such requirements, or (C) if, when the Registrant renewed, revised, or consolidated the obligation or claim arising out of an extension of instalment credit, the Registrant knew or had reason to know any fact by reason of which such renewal, revision or consolidation resulted in a failure to comply with such requirements.

"(b) General License.--A general license is hereby granted to all persons engaged on or before December 31, 1941 in the type of business described in section 3(a); Provided, however, That such general license terminates at the close of December 31, 1941 for every person who has not registered on or before that date in the manner provided in section 3(c). After December 31, 1941, any person, whose license is not suspended, may become licensed by registering in the manner provided in section 3(c).

"(c) Registration.--Registration as required by this section 3 may be accomplished by filing, with the Federal Reserve Bank of the district in which the main office of the Registrant is located, a registration statement on forms obtainable from any Federal Reserve Bank or branch.

"(d) Suspension of License.--The license of any Registrant may, after reasonable notice and opportunity for hearing, be suspended by the Board, either in its entirety

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"or as to particular activities or particular offices or for specified periods, on any of the following grounds:

(1) Any material misstatement or omission willfully or negligently made in the registration statement;

(2) Any willful or negligent failure to comply with any provision of this regulation or any requirement of the Board pursuant thereto.

"A license which is suspended for a specified period will again become effective upon the expiration of such period. A license which is suspended indefinitely may be restored by the Board, in its discretion, if the Board is satisfied that its restoration would not lead to further violations of this regulation and would not be otherwise incompatible with the public interest.

"SECTION 4. INSTALMENT SALE CREDIT

"Except as otherwise permitted by section 6, any extension of instalment sale credit shall comply with the following requirements:

"(a) Maximum Amount of Credit.--The deferred balance shall not exceed the maximum credit value of the listed article specified in the Supplement to this regulation (hereinafter called the 'Supplement');

"(b) Maximum Maturity.--The maturity shall not exceed that specified for the listed article in the Supplement;

"(c) Amounts of Payments.--Except as permitted by section 4(d), the instalments in which the time balance is repayable shall be substantially equal in amount or be so arranged that no instalment is substantially greater in amount than any preceding instalment;

"(d) Intervals of Payments.--The instalments shall be payable at approximately equal intervals not exceeding one month, except that, when appropriate for the purpose of facilitating repayment in accordance with the seasonal nature of the obligor's main source of income or to encourage off-seasonal purchases of seasonal goods, the payment schedule may reduce or omit payments over any period or periods totaling not more than 4 months during the life of such extension of instalment sale credit if the schedule increases the scheduled payments in such manner as to meet all the other requirements of this section 4;

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"*(e) Minimum Monthly Payment.--Except as permitted by section 4(d), the schedule of payments shall call for instalments aggregating not less than \$5.00 per month;

"***(f) Statement of Transaction.--The extension of instalment sale credit shall be evidenced by a written instrument or record, and there shall be incorporated therein or attached thereto a written statement, of which a copy shall be given to the obligor as promptly as circumstances will permit, and which shall set forth (in any order) the following information:

(1) A brief description identifying the article purchased;

(2) The bona fide cash purchase price of the article and accessories purchased (including any sales taxes thereon) and of any services (excluding any interest or finance charge and the cost of any insurance) rendered in connection with the acquisition thereof, itemized;

(3) The amount of the purchaser's down payment (A) in cash and (B) in goods accepted in trade, together with a brief description identifying such goods and stating the monetary value assigned thereto in good faith;

(4) The deferred balance, which is the difference between items (2) and (3);

(5) The amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts;

(6) The time balance owed by the purchaser, which is the sum total of items (4) and (5); and

(7) The terms of payment.

"(g) Credit of Which a Part Arises Out of Sale of a Listed Article.--In case an extension of instalment sale credit arises partly out of a sale of an article listed in the Supplement and partly out of another sale, the amount and the terms of such extension of credit shall be such as would result if the credit were divided into two parts, the part relating to the listed article being treated in accordance with the provisions of this regulation relating to such article and the remainder being treated in the

*Effective January 1, 1942.

**Effective October 1, 1941.

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"manner in which the Registrant would in good faith treat a similar extension of credit if standing alone.

"SECTION 5. INSTALMENT LOAN CREDIT

"Except as otherwise permitted by section 6, any extension of instalment loan credit shall comply with the following requirements:

"(a) Loans Secured by Listed Article.--If the extension of instalment loan credit is wholly or partly secured, or according to any oral or written agreement of the parties is to become so secured, by any listed article which has been purchased within 45 days prior to, or is to be purchased at any time after, such extension of instalment loan credit:

(1) The principal amount lent to the obligor (excluding any interest or finance charges, and the cost of any insurance) shall not exceed the maximum credit value of the listed article specified in the Supplement; and, in determining such maximum credit value, the Registrant may accept in good faith a written statement signed by the obligor setting forth the bona fide cash purchase price of the article and of any accessories and of any services, except insurance, rendered in connection with the acquisition thereof, which statement so accepted shall, for purposes of this regulation, be deemed to be correct; and

(2) The maturity shall not exceed that specified for the listed article in the Supplement, and such maximum maturity shall be calculated from the date of purchase of such listed article or from the date of such extension of instalment loan credit, whichever is earlier.

"(b) Miscellaneous Loans of \$1,000 or Less.--If the extension of instalment loan credit is not subject to section 5(a) but is in a principal amount of \$1,000 or less, the maximum maturity shall not exceed that specified in the Supplement for extensions of instalment loan credit subject to this section 5(b).

"(c) General Requirements.--Whether subject to section 5(a) or section 5(b), the extension of instalment loan credit shall comply with the following additional requirements:

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"*(1) The extension of instalment loan credit shall be evidenced by a written instrument or record, and there shall be incorporated therein or attached thereto a written statement, of which a copy shall be given to the obligor as promptly as circumstances will permit, and which shall set forth the terms of payment and, if the loan is subject to section 5(a), the bona fide cash purchase price used for determining the maximum credit value of the listed article involved;

(2) Except as permitted by section 5(c)(3), the total of the principal and any interest or finance charges shall be payable in instalments which shall be substantially equal in amount or be so arranged that no instalment is substantially greater in amount than any preceding instalment;

(3) Instalments shall be payable at approximately equal intervals not exceeding one month, except that, when appropriate in order to facilitate repayment in accordance with the seasonal nature of the obligor's main source of income or to encourage off-seasonal purchases of seasonal goods, the payment schedule may reduce or omit payments over any period or periods totaling not more than 4 months during the life of such extension of credit if the schedule increases the scheduled payments in such manner as to meet the other requirements of this section 5; and

** (4) Except as permitted by section 5(c)(3), the schedule of payments shall call for instalments aggregating not less than \$5.00 per month.

"(d) Determining When Listed Article Purchased.--

In case the Registrant accepts in good faith a written statement signed by the obligor that any listed article which secures an extension of instalment loan credit has not been purchased within 45 days prior to such extension of credit such statement shall, for the purposes of this regulation, be deemed to be correct.

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** Effective January 1, 1942.

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"SECTION 6. CERTAIN EXCEPTIONS

"Notwithstanding the provisions of sections 4 and 5, the requirements of such sections shall not apply to any of the following:

"(a) Any extension of credit which is secured by a bona fide first lien on improved real estate duly recorded.

"(b) Any extension of credit over \$1,000 which is made for materials and services in connection with repairs, alterations, or improvements upon urban, suburban, or rural real property in connection with existing structures, even though such materials include articles listed in Group C or D in the Supplement, provided the bona fide cash purchase price of such articles so listed does not exceed 50 per cent of the total over-all deferred balance.

"(c) Any extension of instalment loan credit which is made to or for a student for bona fide educational purposes.

"(d) Any extension of instalment loan credit if (1) the proceeds are to be used for bona fide medical, hospital, dental, or funeral expenses and (2) the income of the obligor available for the purpose is such that he could not reasonably meet the requirements of this regulation otherwise applicable, and failure to obtain the extension of credit would cause undue hardship to him; Provided, That if the Registrant accepts in good faith a written statement signed by the obligor and setting forth the facts relied upon to bring the loan within the exception of this section 6(d) the facts set forth in such statement shall, for the purposes of this regulation, be deemed to be correct.

"(e) Any extension of credit (1) to finance the purchase of aircraft in order to facilitate participation in the Civilian Pilot Training Program of the Civil Aeronautics Authority; or (2) to remodel or rehabilitate any dwelling or residence which the Defense Housing Coordinator, or his authorized agent, shall designate as being for 'defense housing' as defined by the Coordinator. Information regarding the procedure for obtaining such a designation may be obtained through any Federal Reserve Bank or branch.

"(f) Any extension of instalment sale credit which is to be repaid at approximately equal intervals and in approximately equal instalments, the last of which matures within three months after the first day of the calendar month next following such extension.

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"(g) Any extension of credit to a dealer in any listed article, whether a wholesaler or retailer, to finance the purchase of any such article for resale.

"(h) Any extension of credit which is to be repaid within not more than twelve months and is made to a bona fide salesman of automobiles in order to finance the purchase of a new automobile to be used by him principally as a demonstrator.

"(i) Any extension of credit which is for the purpose of financing a premium in excess of one year on a fire or casualty insurance policy if the proceeds are paid directly to the insurance agent, broker, or company issuing or underwriting the insurance and the extension of credit is fully secured by the unearned portion of the premium so financed.

"(j) Any extension of instalment sale credit made on or before December 31, 1941, which (1) does not bring above \$50 the total of the obligor's outstanding indebtedness to the Registrant arising out of extensions of instalment sale credit made on or after September 1, 1941, and (2) is to be repaid at approximately equal intervals and in approximately equal instalments the last of which matures within 9 months after the first day of the calendar month next following such extension.

"(k) Any extension of instalment loan credit which is made to a person engaged in agriculture, or to a cooperative association of such persons, provided that the extension of instalment loan credit (1) is approved by the Farm Security Administrator, or his authorized agent, as being necessary for the rehabilitation of a needy farm family, or (2) is for general agricultural purposes and is not for the purpose of purchasing any listed article and not secured by any listed article purchased within 45 days before the extension of credit. In determining whether a loan meets the description of clause (2) above, a Registrant may accept in good faith a written statement signed by the obligor setting forth the facts relied upon to bring the loan within the description, and the facts set forth in such statement shall, for the purposes of this regulation, be deemed to be correct.

"SECTION 7. ENFORCEABILITY OF CONTRACTS

"Pending an opportunity for the Board to observe this regulation in operation and except as may subsequently be

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"otherwise provided, all of the provisions of this regulation are designated, pursuant to section 2(d) of the Executive Order, as being for administrative purposes within the meaning of said section 2(d) which provides that non-compliance with provisions of the regulation so designated shall not affect the right to enforce contracts.

"SECTION 8. RENEWALS, REVISIONS, AND ADDITIONS

"*(a) Renewals or Revisions.--If any obligation or claim evidencing any extension of instalment sale credit or instalment loan credit is renewed or revised by a Registrant, the extension of instalment credit does not comply with the requirements of this regulation if such renewal or revision has the effect of changing the terms of repayment to terms which this regulation would not have permitted in the first instance for such credit; Provided, however, That this shall not prevent the Registrant from taking any such action if the Registrant accepts in good faith a statement of necessity as provided in section 8(d) and the extension of instalment credit provides for a schedule of repayment in conformity with this regulation as though it were a new extension of instalment credit; and Provided further, That nothing in this regulation shall be construed to prevent any Registrant from making any renewal or revision, or taking any action that it shall deem necessary in good faith, (1) with respect to any obligation of any member of the armed forces of the United States incurred prior to his induction into such service, or (2) for the Registrant's own protection in connection with any obligation which is in default and is the subject of bona fide collection effort by the Registrant.

"*(b) Additions to Outstanding Credit.--If any Registrant makes any extension of instalment sale credit or instalment loan credit and such extension of instalment credit is consolidated with any obligation held by the Registrant evidencing any prior extension of instalment sale credit or instalment loan credit to the same obligor, neither extension of instalment credit complies with the requirements of this regulation unless the terms of the consolidated obligation are such as would have been necessary to meet the requirements of this regulation if the two extensions had not been so consolidated; Provided, however, That if the Registrant accepts in good faith a statement of necessity as provided

*Effective November 1, 1941.

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"in section 8(d), the combined obligation may provide for a schedule of repayment in conformity with this regulation as though it were a new extension of instalment credit.

"*(c) Credit to Retire Obligations Held Elsewhere.-- Any extension of instalment 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 instalment sale credit or instalment 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. In determining whether the proceeds of any extension of instalment credit will be so used, if the Registrant accepts in good faith a written statement with respect thereto signed by the obligor, such statement shall, for the purposes of this regulation, be deemed to be correct.

"*(d) Statement of Necessity to Prevent Undue Hardship.-- The requirements of a statement of necessity, as provided for in sections 8(a), 8(b), and 8(c), will be complied with only if the Registrant accepts in good faith a written statement on a form prescribed by the Board and signed by the obligor that the contemplated renewal, revision, or other action is necessary in order to avoid undue hardship upon the obligor resulting from contingencies which were unforeseen by the obligor at the time of obtaining the original extension of instalment credit or which were beyond the control of the obligor, which statement also sets forth briefly the principal facts and circumstances with respect to such contingencies and specifically states that the renewal, revision, or other action is not pursuant to any preconceived plan, arrangement, or intention to evade or circumvent any requirement of this regulation.

"(e) Obligations Outstanding on September 1, 1941.-- The requirements of sections 8(a), 8(b), and 8(c), do not apply to any renewal or revision of any obligation arising out of any extension of instalment sale credit or instalment loan credit made prior to September 1, 1941; but when any such outstanding obligation has been combined with any extension of instalment sale credit or instalment loan credit made on or after September 1, 1941, or has been the subject of any renewal or revision made on or after such date, such extension of instalment credit shall thereafter be treated

*Effective November 1, 1941.

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"for the purposes of this regulation as having been made on or after such date.

"(f) Side Loan to Make Down-Payment on Listed Article.--An extension of instalment credit which is limited in amount by this regulation to the maximum credit value of any listed article, does not comply with the requirements of this regulation if the Registrant making such extension of instalment credit knows or has reason to know that there is, or that there is to be, any other extension of credit in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the maximum credit value of such article as specified in the Supplement; Provided, That, if the Registrant accepts in good faith a written statement signed by the obligor that no such other extension exists or is to be made, such statement shall, for the purposes of this regulation, be deemed to be correct.

"(g) Evasive Side Agreements.--No extension of instalment credit complies with the requirements of this regulation if at the time it is made there is any agreement, arrangement, or understanding by which the obligor is to be enabled to make repayment on conditions inconsistent with those required by this regulation, or which would otherwise evade or circumvent, or conceal any evasion or circumvention of, any requirement of this regulation.

"SECTION 9. MISCELLANEOUS PROVISIONS

"(a) Clerical Errors.--Any failure to comply with this regulation resulting from a mistake in determining, calculating, or recording any price, credit value, or extension of credit, or other similar matter, shall not be construed to be a violation of this regulation if the Registrant establishes that such failure to comply was the result of excusable error and was not occasioned by a regular course of dealing.

"(b) Calculating Maximum Maturity of Contract.--In calculating the maximum maturity of a contract from the date on which any listed article was purchased or any loan was made, depending upon which such date is required by this regulation to be used for such calculation, a Registrant may, at his option, use as such date of purchase or loan any date not more than 15 days subsequent to the actual date thereof.

"(c) 'Lay-away' Plans.--With respect to any extension of instalment sale credit involving a bona fide

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"'law-away' plan, or other similar plan by which a purchaser makes one or more payments on an article before receiving delivery thereof, the Registrant may, for the purposes of this regulation, treat the extension of instalment sale credit as not having been made until the date of the delivery of the article to the purchaser.

"(d) Outstanding Contracts.--Except as provided in section 8(e) with respect to contracts made prior to September 1, 1941, which have been renewed, revised, or consolidated on or after such date, nothing in this regulation shall apply with respect to any valid contract made prior to such date.

"(e) Payments Arising out of Loans on Instalment Obligations.--With respect to any loan on the security of an obligation or claim which arises out of an extension of instalment credit, the prohibitions of this regulation shall be deemed to apply only to payments arising out of the obligation or claim rather than to payments arising out of the loan.

"(f) Determining Security for Instalment Loan Credit.--In determining whether an extension of instalment loan credit is secured by any recently acquired listed article, as described in section 5(a), the Registrant acting in good faith may disregard any such listed article which specifically secures some other extension of credit and secures the loan in question merely by reason of an 'overlap agreement,' 'spreader clause,' or other form of general over-all lien.

"(g) Records and Reports.--Every Registrant shall keep such records and make such reports as the Board may from time to time require as necessary or appropriate for enabling it to perform its functions under the Executive Order.

"(h) Production of Records.--Every Registrant, as and when required by the Board, shall furnish complete information relative to any transaction within the scope of the Executive Order, including the production of any books of account, contracts, letters, or other papers in connection therewith.

"(i) Transactions Outside United States.--Nothing in this regulation shall apply with respect to any extension of credit made in Alaska, the Panama Canal Zone, or any territory or possession outside the continental United States.

"(j) Right of Registrant to Impose Stricter Requirements.--Nothing in this regulation shall be construed to

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"modify the right of any Registrant to refuse to extend credit, or to extend less credit than the amount permitted by this regulation, or to require that repayment be made within a shorter period than the maximum permitted by this regulation.

"SECTION 10. EFFECTIVE DATE OF REGULATION

"This regulation shall become effective September 1, 1941, except that sections 4(f) and 5(c)(1) shall not become effective until October 1, 1941, sections 8(a), 8(b), 8(c), and 8(d) shall not become effective until November 1, 1941, and sections 4(e) and 5(c)(4) shall not become effective until January 1, 1942."

"SUPPLEMENT TO REGULATION W

"Part 1. Listed Articles, Maximum Maturities, and Maximum Credit Values.—For the purposes of the regulation the following maximum maturities and maximum credit values shall apply to the following list of articles:

<u>Articles of Consumers' Durable Goods (Whether new or used)</u>	<u>Maximum Maturity in Months</u>	<u>Maximum Credit Value in per cent of Basis Price</u>
<u>Group A</u>		
1. Automobiles (passenger cars designed for the purpose of transporting less than 10 passengers, including taxicabs).....	18	(See Part 3 of this Supplement)
<u>Group B</u>		
1. Aircraft (including gliders).	18	66-2/3
2. Power driven boats, and motors designed for use therein, other than boats or motors designed specifically for commercial use....	18	66-2/3
3. Outboard boat motors.....	18	66-2/3
4. Motorcycles (two or three-wheel motor vehicles, including motor bicycles).....	18	66-2/3
<u>Group C</u>		
1. Mechanical refrigerators of less than 12 cubic feet rated capacity.....	18	80

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<u>Articles of Consumers' Durable Goods (Whether new or used)</u>	<u>Maximum Maturity in Months</u>	<u>Maximum Credit Value in per cent of Basis Price</u>
<u>Group C: (Continued)</u>		
2. Washing machines designed for household use.....	18	80
3. Ironers designed for household use.....	18	80
4. Suction cleaners designed for household use.....	18	80
5. Cooking stoves and ranges with less than seven heating surfaces.....	18	80
6. Heating stoves and space heaters designed for household use.....	18	80
7. Electric dishwashers designed for household use.....	18	80
8. Room-unit air conditioners....	18	80
9. Sewing machines designed for household use.....	18	80
10. Radio receiving sets, phonographs, or combinations.....	18	80
11. Musical instruments composed principally of metals.....	18	80
<u>Group D</u>		
1. Household furnaces and heating units for furnaces (including oil burners, gas conversion burners, and stokers).....	18	85
2. Water heaters designed for household use.....	18	85
3. Water pumps designed for household use.....	18	85
4. Plumbing and sanitary fixtures designed for household use...	18	85
5. Home air conditioning systems.	18	85
6. Attic ventilating fans.....	18	85
7. New household furniture (including ice refrigerators, bed springs, and mattresses but excluding floor coverings, wall coverings, draperies, and bed coverings) ¹ ...	18	90
8. Pianos and household electric organs.....	18	90

¹An article is not new if it has been used by a consumer.

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Articles of Consumers' Durable Goods (Whether new or used)	Maximum Maturity in Months	Maximum Credit Value in per cent of Basis Price
<u>Group E</u>		
1. Materials and services (other than materials listed in Group C or D) in connection with repairs, alterations, or improvements upon urban, suburban, or rural real property in connection with existing structures, provided the deferred balance does not exceed \$1,000.....	18	No limitation

"Part 2. Basis Price of Listed Articles Other Than Automobiles.--The basis price of any listed article other than an automobile shall be the bona fide cash purchase price of the article and accessories purchased, including any sales taxes thereon and any bona fide delivery and installation charges, minus the amount of any allowance made by the seller for any article traded-in by the purchaser (including as such a trade-in anything which the seller buys or arranges to have bought from the purchaser at or about the time of the purchase of the listed article).

"Part 3. Maximum Credit Value of Automobiles.--For the purposes of section 4 and section 5(a) of the regulation:

"(a) The maximum credit value of a new automobile shall be $66 \frac{2}{3}$ per cent of the bona fide cash purchase price of the automobile and accessories (including any sales taxes thereon and any bona fide delivery charges) but in no event to exceed $66 \frac{2}{3}$ per cent of the sum of the following items:

- (1) The advertised delivery price of the automobile (with standard equipment) at the factory;
- (2) Transportation charges established by the manufacturer from factory to point of delivery;
- (3) Any Federal, State, or local taxes not included in the foregoing; and
- (4) Any bona fide charges for delivery or accessories not included in the foregoing items.

In case the automobile is sold for delivery at the factory, by a dealer in a given place to a resident of such place or its vicinity who actually intends to bring the automobile to such place or vicinity and use it there, an amount

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"equal to the freight from the factory to such place may be included.

"(b) For any used automobile the maximum credit value, until otherwise provided, shall be $66 \frac{2}{3}$ per cent of the bona fide cash purchase price (including any sales taxes thereon).

"Part 4. Instalment Loan Credit Subject to Section 5(b) of the Regulation.--The maximum maturity of any extension of instalment loan credit of \$1,000 or less subject to section 5(b) of the regulation shall be 18 months."

"APPENDIX TO REGULATION W
"EXECUTIVE ORDER
"REGULATION OF CONSUMER CREDIT

"DECLARATION OF NECESSITY AND PURPOSE

"WHEREAS a large volume of credit is being devoted to financing and refinancing purchases of consumers' goods and services through extensions of credit that usually are made to individuals and to a large extent are on an instalment payment basis; and

"WHEREAS the conditions under which such credit is available have an important influence upon the volume and timing of demand, not only for the particular goods and services purchased on credit but also for goods and services in general; and

"WHEREAS liberal terms for such credit tend to stimulate demand for consumers' durable goods the production of which requires materials, skills, and equipment needed for national defense; and

"WHEREAS the extension of such credit in excessive volume tends to generate inflationary developments of increasing consequence as the limits of productive capacity are approached in more and more fields and to hinder the accumulation of savings available for financing the defense program; and

"WHEREAS the public interest requires control of the use of instalment credit for financing and refinancing purchases of consumers' durable goods the production of which absorbs resources needed for national defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding

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"curtailment of demand, (c) to assist in restraining general inflationary tendencies, to support or supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-defense period; and

"WHEREAS in order to prevent evasion or avoidance of this order and such regulations as may be prescribed to effectuate its purposes, means should also be available for regulating the use of other instalment credit and other forms of credit usually extended to consumers or on consumers' durable goods; and

"WHEREAS it is appropriate that such credit be controlled and regulated through an existing governmental agency which has primary responsibilities with respect to the determination and administration of national credit policies:

"NOW, THEREFORE, by virtue of the authority vested in me by section 5(b) of the act of October 6, 1917, as amended, and by virtue of all other authority vested in me, and in order, in the national emergency declared by me on May 27, 1941, to promote the national defense and protect the national economy, it is hereby ordered as follows:

"ADMINISTRATION

"Section 1. (a) The Board of Governors of the Federal Reserve System (hereinafter called the Board) is hereby designated as the agency through which transfers of credit between and payments by or to banking institutions (as defined herein pursuant to section 5(b) of the aforesaid Act) which constitute, or arise directly or indirectly out of, any extension of credit of a type set out in section 2(a) of this order shall be investigated, regulated and prohibited.

"(b) The Board shall, whenever it deems such action to be necessary or appropriate, take any lawful steps herein authorized and such other lawful steps as are within its power to carry out the purposes of this order, and may, in administering this order, utilize the services of the Federal Reserve Banks and any other agencies, Federal or State, which are available and appropriate.

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"(c) In order to facilitate the coordination of the Board's functions under this order with other phases of the program for national defense and for protecting the national economy, there shall be a committee consisting of the Secretary of the Treasury, the Federal Loan Administrator, and the Administrator of the Office of Price Administration and Civilian Supply, or such alternate as each shall designate and such other members as the President shall subsequently appoint. The Board shall maintain liaison with the committee, and in formulating policies with respect to down-payments, maturities, terms of repayment, and other such questions of general policy shall consult with the committee and take into consideration any suggestions or recommendations it may make.

"REGULATIONS

"Section 2. (a) Whenever the Board shall determine that such action is necessary or appropriate for carrying out the purposes of this order, the Board shall prescribe regulations with respect to transfers and payments which constitute, or arise directly or indirectly out of, any extension of instalment credit for the purpose of purchasing or carrying any consumers' durable good except a residential building in its entirety; and the Board may in addition, to the extent deemed by it to be desirable and feasible in order to prevent evasion of such regulations as may be so prescribed or in order to control forms of credit the use of which might defeat the purposes of this order and such regulations, prescribe regulations with respect to transfers and payments which constitute, or arise directly or indirectly out of, (1) any other extension of instalment credit, or (2) any other extension of credit for the purpose of purchasing or carrying any consumers' durable good, or (3) any other extension of credit in the form of a loan other than a loan made for business purposes to a business enterprise or for agricultural purposes to a person engaged in agriculture. Such regulations may be prescribed by the Board at such times and with such effective dates as the Board shall deem to be in accordance with the purposes of this order.

"(b) Such regulations may from time to time, originally or by amendment, regulate or prohibit such transfers

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"and payments or exempt them from regulation or prohibition and may classify them according to the nature of the transactions or goods or persons involved or upon such other basis as may reasonably differentiate such transfers and payments for the purposes of regulations under this order, and may be made applicable to one or more of the classes so established; and, without limiting the generality of the foregoing, such regulations may require transactions or persons or classes thereof to be registered or licensed; may prescribe appropriate limitations, terms, and conditions for such registrations or licenses; may provide for suspension of any such registration or license for violation of any provision thereof or of any regulation, rule, or order prescribed hereunder, may prescribe appropriate requirements as to the keeping of records and as to the form, contents, or substantive provisions of contracts, liens, or any relevant documents; may prohibit solicitations by banking institutions which would encourage evasion or avoidance of the requirements of any regulation, license, or registration under this order; and may from time to time make appropriate provisions with respect to--

(1) The maximum amount of credit which may be extended on, or in connection with any purchase of, any consumers' durable good;

(2) The maximum maturity, minimum periodic payments, and maximum periods between payments, which may be stipulated in connection with extensions of credit;

(3) The methods of determining purchase prices or market values or other bases for computing permissible extensions of credit or required down-payments; and

(4) Special or different terms, conditions, or exemptions with respect to new or used goods, minimum original cash payments, temporary credits which are merely incidental to cash purchases, payment or deposits usable to liquidate credits, and other adjustments or special situations.

"(c) On and after the effective date of any regulation prescribed by the Board with respect to any extension of credit of a type set out in section 2(a), and notwithstanding the provisions of any other proclamation, order, regulation, or license under the aforesaid Act, all transfers and payments which are in violation of such regulation

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"shall be and hereby are prohibited to the extent specified in such regulation.

"(d) Neither this order nor any regulation issued thereunder shall affect the right of any person to enforce any contract, except that after the effective date of any such regulation every contract which is made in connection with any extension of credit and which violates, or the performance of which would violate, any provision of such regulation (other than a provision designated therein as being for administrative purposes), and every lien, pledge, seller's interest in a conditional sale, or other property interest, subject to the provisions of such contract or created in connection therewith, shall be unenforceable by the person who extends such credit or by any person who acquires any right of such person in such contract; provided that such disability shall not apply to any person who extends such credit, or acquires such right for value, in good faith and without knowing or having reason to know the facts by reason of which the making or performance of such contract was or would be such a violation.

"REPORTS

"Section 3. Reports concerning the kinds, amounts, and characteristics of any extensions of credit subject to this order, concerning transfers and payments which arise out of any such extensions of credit, or concerning circumstances related to such extensions of credit or such transfers or payments or to the regulation thereof, shall be filed on such forms, under oath or otherwise, at such times and from time to time, and by such persons, as the Board may prescribe by rule, regulation, or order as necessary or appropriate for enabling the Board to perform its functions under this order. The Board may require any person to furnish, under oath or otherwise, complete information relative to any transaction within the scope of this order, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person.

"DEFINITIONS

"Section 4. For the purposes of this order, unless

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"the context otherwise requires, the following terms shall have the following meanings, provided that the Board may in its regulations give such terms more restricted meanings:

"(a) 'Person' has the meaning set forth in section 5(b) of the act of October 6, 1917, as amended.

"(b) 'Transfers and payments' means 'transfers of credit between and payments by or to banking institutions'.

"(c) 'Banking institution' means any person engaged as principal, agent, broker, or otherwise, in the business of making or holding extensions of credit and includes, without limitation, any bank, any loan company, and finance company, or any other person engaged in the business of making or holding extensions of credit whether as a vendor of consumers' durable goods or otherwise.

"(d) 'Consumers' durable good' includes any good, whether new or used, which is durable or semi-durable and is used or usable for personal, family or household purposes, and any service connected with the acquisition of any such good or of any interest therein.

"(e) 'Extension of credit' means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim or property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

"(f) An extension of credit is an extension of 'instalment credit' if the obligor undertakes to repay the credit in two or more scheduled payments or undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or if the extension of credit has a similar purpose or effect, or if it is for the purpose of financing a business enterprise which makes such extensions of credit.

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"(g) An extension of credit is 'for the purpose of purchasing or carrying any consumers' durable good' if it is directly or indirectly for the purpose of financing or refinancing the purchase of any consumers' durable good or is directly or indirectly secured by any consumers' durable good, or if the extension of credit has a similar purpose or effect, or if it is for the purpose of financing a business enterprise which makes such extensions of credit.

"PENALTIES

"Section 5. Whoever willfully violates or knowingly participates in the violation of this order or of any regulation prescribed hereunder, shall be subject to the penalties applicable with respect to violations of section 5(b) of the said act of October 6, 1917, as amended.*

(Signed) FRANKLIN D. ROOSEVELT.

The White House,
August 9, 1941.

*The section reads in part: 'Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.'

Mr. Parry stated that he would like to have included in the minutes an expression of his sincere appreciation of the valuable contributions made in connection with the drafting of Regulation W by Messrs. Brown and Dembitz. He said that over a period of more than a year Mr. Brown had carried on extensive research and developed many fundamental suggestions with respect to the various aspects of this

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form of selective credit control and that Mr. Dembitz, over a period of many months, had performed distinguished service with respect to the matter in general and certain highly technical aspects in particular.

Mr. Szymczak moved that the Board approve Mr. Parry's suggestion, and that the Board express especially to Mr. Ransom and to Mr. Parry, and to all other members of the staff who had a part in the preparation of Regulation W, the sincere appreciation of the members of the Board for the results that had been obtained and the highly satisfactory manner in which the matter had been handled.

Mr. Szymczak's motion was put by the chair and carried unanimously.

At this point all of the members of the staff with the exception of Messrs. Morrill, Clayton, Parry, and Thomas left the meeting.

Mr. Ransom then called attention to the fact that it would be necessary for Mr. Parry to obtain additional help to do the work that would arise in connection with the regulation, particularly competent men who had had practical experience of a specialized character in fields affected by the regulation, as well as clerical help, and said that Mr. Parry's recommendations should be prepared and submitted as soon as possible, and that the personnel committee and the Board should act upon them promptly. Chairman Eccles concurred, stating that if the System failed to do a good job, the Board would be severely criticized, and Messrs. Szymczak and Draper expressed their agreement. It was also agreed that letters should be gotten out to

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the Federal Reserve Banks as soon as possible outlining what the Board would expect in the way of organization for, and methods and policies to be followed in, administering the regulation in accordance with the Board's decision to decentralize this activity as far as practicable through the twelve Federal Reserve Banks and their twenty-four branches.

Mr. Szymczak was asked by the other members and agreed to supervise the preparation of these instructions.

At this point Messrs. Parry and Thomas left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 20, 1941, were approved unanimously.

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

"Board extends to September 8 the time within which The Onida Bank, Onida, South Dakota, may accomplish membership in the System."

Approved unanimously.

Letter to Mr. Denmark, Assistant Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of August 9, 1941, with respect to the loan of Director George T. Hunter for

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"\$250,000 listed on page 20(1) of the report of examination of the American Trust and Banking Company, Chattanooga, Tennessee, as of July 25, 1941, as being in possible violation of section 11(m) of the Federal Reserve Act. You state:

'Director Hunter has been indebted to the bank some two or three years on a note for \$100,000 secured by various stocks, being in the main those stocks now held by the bank as security to his indebtedness. Since the previous examination the bank loaned Director Hunter an additional \$150,000 with which to open a new bottling plant in Alabama but no further security was accepted. In actuality the new note is unsecured except for the statements embodied in the note to the effect that collaterals held by the bank to secure any of the maker's indebtedness are to be considered as applicable to all of his indebtedness.'

"In view of the above statement, it appears that the collateral held by the bank is security for the second loan of \$150,000 as well as the first loan of \$100,000 and that both loans are loans secured by stocks under the provisions of section 11(m) of the Federal Reserve Act and that the latter loan is, therefore, a violation of that section."

Approved unanimously.

Memorandum dated August 18, 1941, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the September issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Executive Order and Regulations With Respect to Regulation of Consumer Credit.
(The regulations of the Board of Governors will be included as soon as they are finally approved.)

Broker Borrowing from Nonmember Bank under Section 8(a) of the Securities Exchange Act of 1934.

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Legislation Relating to Use of Obligations
of the United States as Collateral for Fed-
eral Reserve Notes.

Legislation Relating to Extension of Powers
Relating to the Stabilization Fund and the
Weight of the Dollar.

Executive Order Establishing the Economic
Defense Board.

Executive Order and Regulations on Trans-
fers of Property of Foreign Countries and
Their Nationals.

General Licenses and Public Circulars Is-
sued by the Secretary of the Treasury.

Approved unanimously.

Thereupon the meeting adjourned.

Walter Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.