

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 27, 1941, at 11:45 a.m.

PRESENT: 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. Parry, Chief of the Division of Security Loans
Mr. Bradley, Assistant Chief of the Division of Security Loans
Mr. Cravens, Consultant in the Division of Security Loans

Before this meeting there was circulated among the members of the Board who were in Washington a memorandum dated August 26, 1941, from Mr. Parry setting forth conclusions which had been reached after consultation with Messrs. Ransom and Cravens with respect to augmenting the staff of the Division of Security Loans for the purpose of meeting the additional responsibilities placed upon the Division by the Board in connection with the administration of the provisions of Regulation W, Consumer Credit. The memorandum recommended (1) that the Board employ on a permanent basis, with salaries ranging from \$4,000 to \$7,500, not less than four specialists in the field of consumer credit who would become members of the Division of Security Loans and assist in the administration of Regulation W; (2) that if such specialists could not be found at once the Board employ on a

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temporary basis for a period of sixty days or so, at their present salaries (but not to exceed \$15,000 per annum), men of large caliber in the consumer credit field, and that, if these men were not willing to come on any other terms, the Board consider their employment on a dollar-a-year basis; and (3) that Mr. Ransom be authorized to have the necessary experts employed.

Mr. Ransom stated that he had sent copies of Mr. Parry's memorandum to Chairman Eccles and Mr. McKee who were in the West with a request that they advise him by wire of their views.

In response to a request by Mr. Ransom that Mr. Parry amplify the statements contained in the memorandum above referred to, the latter stated that as he saw the problem it was necessary to establish in his Division an adequate staff that would serve as the center of the organization to be set up by the Board and the Federal Reserve Banks to administer Regulation W; and that the Washington staff would furnish a measure of leadership to the Federal Reserve Banks in developing adequate personnel and in the work of the banks in connection with the Regulation. He felt that, in order to do that, the Division would have to employ at least four specialists in the various installment credit fields; that they should be the best men available in the field and well qualified to give the Board the benefit of unbiased advice in their respective fields; and that one should be from the personal finance or small loan companies, one who knew automobile finance and had had contact with automobile dealers, one familiar with modernization

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and rehabilitation loans, and one familiar with the mercantile field, particularly furniture. Mr. Parry made the further statement that it was expected that these men would be employed either on a permanent or temporary basis as suggested in his memorandum and that they would assist in building up the System organization, and, in due time, such machinery as might be found to be necessary to enforce the Regulation. In addition, he said, it would be necessary from time to time to employ additional clerks and stenographers to handle the increase in the Division's work. It was not proposed at this time, Mr. Parry said, to employ a specialist on credit unions for the reason that the Farm Credit Administration, which had supervision of Federal credit unions, was in sympathy with the objectives of Regulation W and had indicated a willingness to assist, and that additional assistance would be obtained in the home appliance field from the Electric Home and Farm Authority.

Mr. Cravens expressed concurrence in what Mr. Parry had said and referred to considerations which he felt should be taken into account by the Board to insure the selection of specialists who would be qualified to give the Board unbiased advice in their respective fields.

Mr. Ransom stressed the necessity of obtaining as promptly as possible the services of the specialists, either on a permanent basis or if that should not be possible on a temporary basis, with the thought that the temporary employees would be of assistance in selecting their successors as permanent additions to the staff.

Mr. Ransom then referred to the suggestion that the name of

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the Division of Security Loans be changed in recognition of its broader responsibilities and stated that he would prefer not to make such a change at this time for the reason that it might be interpreted as indicating that consumer credit control was being undertaken as a permanent matter. However, he said, should Mr. Parry sign letters dealing with instalment credit matters as Chief of the Division of Security Loans some misunderstanding might result and it was suggested, therefore, that he be authorized for the time being to place under his signature on such letters the words "In charge of Consumer Credit Regulation".

This suggestion was agreed to unanimously.

Mr. Clayton raised a question as to what procedure would be followed when the Board began to receive complaints with respect to violations of Regulation W, and in a discussion of this matter there was unanimity of opinion that, while it was desirable that the procedure for handling complaints be agreed upon as promptly as possible, the procedure should be carefully worked out.

At the conclusion of the discussion, the members of the Board expressed agreement with the recommendations contained in Mr. Parry's memorandum with the understanding that the appointments proposed by Mr. Parry would be approved and compensation fixed by the Board in each case upon recommendation by Mr. Ransom.

Following further discussion, Mr. Szymczak suggested that arrangements should be made to have research work done in the field of instalment credit for the purpose of developing such statistics and other information as may be necessary to enable the Board more effec-

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tively to discharge its responsibilities under the President's executive order. There was a discussion of whether this work should be done in the Division of Research and Statistics or in the Division of Security Loans and it appeared to be the feeling of the members of the Board that, from the standpoint of good organization, it would be preferable to have the work done in the Division of Research and Statistics.

Mr. Ransom presented, and Mr. Carpenter read, a letter addressed to Mr. Ransom under date of August 26, 1941, by Mr. William J. Cheyney, Vice President of the National Retail Furniture Association suggesting that the Board arrange for participation in a discussion group as one of the items on the program for the eastern convention of the Association at Atlantic City on September 15 - 17, 1941.

It was agreed that it would not be appropriate at this time to do so, and Mr. Parry was requested to prepare a draft of a reply to the letter for Mr. Ransom's signature.

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

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

"Your bank is authorized to open and maintain accounts in the name of the Norwegian Government as requested in your letter of August 22. The other Federal Reserve Banks are authorized to participate in such accounts and will be

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"so advised by the Board."

Approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Referring your August 15 letter, since number of banks in Group 3 appears to be less than number in Group 2, it would appear desirable to change classification by raising maximum capital and surplus for Group 3 banks from \$100,000 to say \$125,000 or thereabouts. You may also wish to review capital classification of banks in Group 1."

Approved unanimously.

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

"Reg. W-1. An inquiry which may be stated as follows has been received under Regulation W:

'Work is in progress on a home modernization job which cannot be completed by August 31. Prior to the issuance of Regulation W or the signing of Executive Order 8843 under which Regulation W was issued, a lender made a written commitment to finance the modernization upon its completion. When the work is completed in due course after September 1, may it be financed pursuant to the pre-September commitment, or must the financing comply with the 18-months limitation stated in the Supplement to the regulation? Would it make any difference whether the credit was instalment sale credit instead of instalment loan credit?'

"It is the opinion of the Board that in such a case of a bona fide written pre-September commitment, which is in effect a contract to make a contract and which involves no effort to evade the regulation, section 9(d) permits the modernization to be financed pursuant to such commitment even though the loan is not made until after

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"September 1. The same result would follow in such a case whether the credit was instalment sale credit or instalment loan credit."

Approved unanimously.

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

"Reg. W-2. An inquiry which may be stated as follows has been received under Regulation W:

'In connection with a contract for the modernization of a building, a written commitment is made on September 2, 1941 for a loan which will be subject to Regulation W and is to be made when the work is completed. The construction and installations involved in the modernization are expedited as much as circumstances will permit, and are completed on October 10, when the loan is made on the certificate of completion. In calculating the 18 months maximum maturity permitted for the credit, should September 2 or October 10 be taken as the base? Would it make any difference if the credit was instalment sale credit instead of instalment loan credit?'

"The Board is of the opinion that in the specified case the date to be used as the base for calculating the 18 months maximum maturity is October 10. This would hold true whether the credit is instalment sale credit or instalment loan credit."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-3. Re Regulation W inquiry on furniture, if furniture is of the type used in households it is subject to the regulation and it does not matter that the particular piece may be sold for use in an office, hospital, store, or other commercial building."

Approved unanimously.

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Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-4. Re Regulation W inquiry on cooking stoves and ranges, an oven or a broiler is considered a heating surface if it has a separate source of heat, as, for example, a separate burner or electric element, but if oven and broiler have a separate source of heat in common it is considered that there is but one heating surface. Neither is considered a heating surface if its source of heat is a central firebox."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Donald R. Anderson
Vice Chairman.