

12713 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 2, 1941, at 11:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The action stated with respect to each of the matters herein after referred to was taken by the Board:

Memorandum dated August 27, 1941, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that Ramsay Wood be appointed as a junior economist in the Division of Research and Statistics, with salary at the rate of \$2,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 27, 1941, from Mr. Nelson, Assistant Secretary, reading in part as follows:

"There is attached a copy of an Act approved August 1, 1941, providing that employees of the United States Government who have heretofore or who may hereafter be ordered to active duty with the military or naval service of the United States shall be entitled to receive compensation for their accumulated or current accrued leave or to elect to have such leave remain to their credit until their return from such service. It is believed that this Act is applicable to employees of the Board, but not to employees of Reserve Banks.

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"At the time of adoption of the Board's policy with respect to employees called into military or naval service, the question of payment for accrued leave was given consideration, but the policy as finally adopted provides that each employee receive one month's unearned salary, and that his accumulated leave remain to his credit until he returns. This policy may be continued and would be consistent with the Act passed on August 1, 1941 in cases where employees elect to have their leave remain to their credit until they return to the Board's employ. However, should an employee elect to be paid for his accumulated leave a decision must be made whether he should be paid for accumulated leave in addition to the one month's unearned salary, or whether the amount of unearned salary paid should be treated as an offset against any payments which it is necessary to make for accrued leave.

RECOMMENDATION:

"It is recommended that the amount of unearned salary paid to employees called into military or naval service be treated as an offset against any compensation due for accrued leave in cases where employees request payment for such leave, but that in cases where employees elect to have their accrued leave remain to their credit pending their reemployment, no offset be made against such leave."

Approved unanimously.

Letter to the board of directors of the "Community Bank, Steelville, Missouri", Steelville, Missouri, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis.

Approved unanimously, together with a letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Community Bank,

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"Steelville, Missouri', Steelville, Missouri, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Finance for the State of Missouri for his information.

"It has been noted that estimated losses shown in the report of examination for membership were ordered charged off at the close of the examination and it is assumed that the charge-offs have been made. Accordingly, the usual condition of membership regarding the elimination of losses has not been prescribed; however, if it has not already been done, definite advice should be obtained prior to admission of the bank to membership that the losses have been eliminated."

Letter to the board of directors of the "Farmers State Bank of Temple", Temple, Texas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas.

Approved unanimously for transmission through the Federal Reserve Bank of Dallas.

Letter to Mr. Mercer, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letters of August 20 and 23, 1941, submitting for the Board's consideration, under the provisions of an applicable condition of membership, expenditures and proposed expenditures totaling approximately \$431,200 by the Union Trust Company of Maryland, Baltimore, Maryland, for the purpose of purchasing the

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"leased land on which part of the main office building is located and for certain improvements in the main office and two branch office buildings.

"In view of the circumstances as outlined in your letters, and in accordance with your recommendations, the Board interposes no objection to the expenditures and proposed expenditures for such purposes, and you are requested to advise the bank accordingly."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring to your letters of August 4 and August 19, 1941, the Board of Governors has changed the classification of member banks for the purpose of electing Class A and B directors of your Bank so that Group 1 will consist of banks with capital and surplus of over \$250,000, Group 2 of banks with capital and surplus of over \$75,000 to \$250,000, and Group 3 of banks with capital and surplus of \$75,000 and less."

Approved unanimously.

Telegram dated August 30, 1941, to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-12. Certain questions have been received regarding the status under Regulation W of commitments made prior to September 1 to extend credit after September 1. Section 9(d) of the regulation exempts 'any valid contract made prior' to September 1. An earlier ruling of the Board has indicated that this exemption applies to a written commitment made prior to September 1 with respect to a modernization job that is in process on August 31. In order to clarify further the application of this provision to outstanding commitments, certain general principles applicable to such commitments are set out below.

"1. The underlying principle is that the exemption in section 9(d) for 'any valid contract' made before September 1 applies not only to an extension of credit actually

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"made before that date, but also to a valid contract to make a contract. The exemption, therefore, includes a valid commitment made in good faith before September 1 to extend credit after September 1, and includes also the credit extended pursuant to such a commitment.

"2. In order for the exemption to apply there must have been a valid contract. The general test is that the borrower should, in the absence of the regulation, have been unable to maintain a suit for damages if the credit had not been granted pursuant to the contract. Some of the requirements for such a contract may be briefly summarized: (a) Even an exact agreement on the sale of a particular article is not necessarily an agreement to extend credit therefor. There must have been a valid contract relating to the credit. Where there is ambiguity as to whether the contract included credit arrangements, relatively little proof would be needed in the case of a contract for a unique or 'custom built' item, as for example a home modernization job, to show that the contract did include credit arrangements; but in the case of a standard article the presumption would be strongly the other way. (b) There must in any case be considerably more than general negotiations or indefinite 'understandings' that the credit would be extended. There must have been an agreement to extend the credit and a reasonably exact agreement as to terms and amount. (c) While not always essential, the case is much clearer if there is written evidence of the commitment. The time as of which the extension of credit is itself dated is not important, the significant date being that of the prior commitment.

"3. Substance and good faith rather than technicalities and formalities control in determining whether there is a valid pre-September contract. The most elaborate written documents do not constitute such a contract unless they represent a bona fide commitment made as a part of a regular business transaction and not as a means of evading the regulation."

Approved unanimously.

Telegram dated August 30, 1941, to all Federal Reserve Banks reading as follows:

"Reg. W-13. The classification household furniture includes mirrors, unpainted furniture, stools, kitchen or breakfast room sets, porch tables, chairs, and swings, and

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"kitchen cabinets but does not include pictures or clothes hampers."

Approved unanimously.

Telegram dated August 30, 1941, to all Federal Reserve Banks reading as follows:

"Reg. W-14. The following articles are not included in any of the classifications of listed articles: toasters, food mixers, roasters, air circulating or ventilating fans other than attic fans or air conditioners, waffle irons, clocks, carpet sweepers not electrically operated."

Approved unanimously.

Telegram dated August 30, 1941, to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-15. Section 4(d) of Regulation W does not permit sale of listed article for payment in five equal instalments spaced at three month intervals."

Approved unanimously.

Telegram dated August 30, 1941, to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-16. A case has been presented to the Board in which a dealer selling a listed article in Group D does not take a note from the purchaser payable to the dealer, but instead, according to arrangements with a bank, takes from the purchaser a note payable to the bank. Since the note is not secured by the listed article, the question has been presented whether the transaction is an extension of instalment sale credit subject to section 4, in which case a down payment would be required, or whether the transaction is an extension of unsecured instalment loan credit subject to section 5(b), in which case the down payment would not be required.

"The question is covered by section 2(d) of the regulation. That section defines an 'extension of instalment sale credit' as an extension of instalment credit which

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"is made 'by any seller' and 'arises out of the sale of such listed article', and it specifically states that the definition applies whether the seller is acting 'as principal, agent or broker'.

"It is accordingly clear that the extension of credit here in question is an extension of instalment sale credit, and as such is subject to the down payment requirement."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-17. The classification 'household furniture' does not include china dinner sets, stainless steel cooking utensil sets, or silver-plated flatware."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-18. The classification 'household electric organs' includes electronic instruments and electric action instruments designed for use in homes. It does not include ecclesiastical models the cases of which are specially designed for use in churches or for similar use."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-19. In order to clarify the status of renewals, revisions and consolidations (or 'add-ons') under Regulation W during the period until November 1, when sections 8(a) and 8(b) on these subjects become effective, certain general principles applicable to such transactions during this period until November 1 are set out below:

"1. Any instalment credit which was originally extended before September 1 may be renewed or revised once on or after September 1 on any terms which the registrant would have granted in good faith in the absence of the regulation. In the case of the renewal or revision of a credit which was originally extended on or after September 1, or the renewal or revision of a credit which was originally extended before September 1 but has already been

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"renewed or revised (or consolidated with a new credit) on or after September 1, the credit as renewed or revised may not have a maturity beyond 18 months from the date of the renewal or revision. This 18 months limitation, however, does not apply to a renewal or revision which relates to an obligation of a member of the armed forces of the United States incurred prior to his induction into the service, or which is necessary for the Registrant's protection in connection with an obligation which is in default and is the subject of bona fide collection effort by the Registrant.

"2. The mere act of consolidating two separate obligations, or of 'adding-on' one obligation to another, can confer no greater privileges than would apply if the obligations were treated separately. Accordingly, any new extension of credit which would be subject to a down payment requirement if made alone, is subject to the same requirement if consolidated with, or 'added-on' to, an outstanding obligation.

"3. Similarly, in determining the terms of repayment permissible when an extension of credit is consolidated with, or 'added-on' to, an outstanding obligation of the same obligor, it is necessary to consider (a) the terms on which the outstanding obligation could be renewed or revised (for that is what its consolidation may in effect accomplish), and (b) the terms required for the additional extension of credit if it stood alone. The consolidated obligation may not provide for repayment at a slower rate than would have been permissible if the outstanding obligation were revised as permitted by the regulation and the new credit were extended in accordance with the regulation but the two credits were not consolidated.

"4. While sections 8(a) and 8(b) which require a statement of necessity in certain cases do not become effective until November 1, section 8(g) of the regulation, which is in full effect beginning September 1, prohibits any extension of instalment credit in connection with which there is any evasive side-agreement for the subsequent renewing or revising of the credit. Therefore, any extension of instalment sale credit or instalment loan credit made on or after September 1 cannot be the subject of any contemporaneous agreement, arrangement or understanding by which renewals or revisions are to be used as a means of evading the requirements of the regulation. Any renewal

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"or revision must be the bona fide result of developments coming after the making of the original extension of credit. Unless it is such a bona fide result of a subsequent development, it is prohibited by section 8(g)."

Approved unanimously.

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

"This is in response to questions in several telegrams received in reply to our wire regarding distribution of Board's interpretations of Regulation W. We have delayed replying until we heard from all Reserve Banks. The following methods include all those reported by the Reserve Banks.

"When interpretations are received they are furnished immediately to all officers and all employees engaged in administering Regulation at branches and head office. Persons who have asked specific questions are advised at once. The interpretations are furnished promptly to local representatives of the press at head offices and branches, to newspapers and others on mailing list, to retail credit associations, and to interested trade organizations whose head offices are in Reserve Bank district. They are also sent to all banks and other financial institutions, which are requested to make them available to local financing agencies and vendors who might not otherwise be informed. Interpretations are included in bank circulars or monthly business reviews and supplements. They are also being used in forum and panel discussions. All who desire to do so are authorized to quote or make copies.

"The Board gives general approval to these methods and believes that every Reserve Bank should use as many of these methods as it deems desirable in order to effect wider distribution of information. It is important, particularly at this time, that those primarily affected by Regulation W be given fullest opportunity to gain correct understanding of its purposes and meaning.

"We will be glad to receive any advice you can give on question of practical value, form or content, or methods of using or distributing proposed compilation of questions and answers."

Approved unanimously.

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Telegram to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Re Hays letter of August 29 enclosing seven interpretations of Regulation W which your bank has given and proposes to include in weekly bulletin, these interpretations appear to be correct, but in your interpretation of section 6(a) on meaning of bona fide, which is correct in substance, would suggest changing words 'mere fact that transaction takes form of coming within section 6(a) for purpose' to something like 'mere fact that first lien is taken for purpose', in order to avoid any implication that mere 'form' of transaction is sufficient to bring it under section 6(a)."

Approved unanimously.

Letter dated August 30, 1941, to Mr. Cheyney, Vice President of the National Retail Furniture Association, prepared by Mr. Parry in accordance with the action taken by the Board on August 27, 1941, and reading as follows:

"Careful consideration has been given by the Board to your suggestion of August 26 to Mr. Ransom that at the time of your Eastern Convention, September 15-17, a discussion group might be set up with our participation to take the place of a proposed meeting with us here in Washington.

"Notwithstanding the manifest advantages of this suggestion, it seems best from our point of view to follow the original plan of having a meeting in Washington. This is in accord with the Board's established practice of many years' standing. It would also afford us opportunity to make sure that all interested elements of the retail furniture business, geographically and otherwise, and perhaps of related businesses, may be in attendance. In addition, it would afford us more time to get ready for the meeting.

"With your permission, however, we should like to have the privilege of having present at some of the meetings

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"of your convention men from the staff of the Federal Reserve Bank of Philadelphia and perhaps a member of the Board's staff."

Approved unanimously.

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

"Mr. Allan Sproul, Chairman, Presidents' Conference Committee on Defense Savings Securities, has furnished the Board with copies of his correspondence with you with respect to the Defense Savings Bond Program.

"It is noted that all Federal Reserve Banks have now assigned officers to establish and maintain contact with the Defense Savings Bond organizations in the States of their Districts. It is also noted that Mr. Sproul has advised you of the names of the members of the staff of the Board of Governors who, under the general direction of Governor McKee, will maintain contact with the Defense Savings Bond organization at Washington and between that organization and the Federal Reserve Banks.

"Mr. Sproul indicates in one of his letters that if the experience in the Second District is at all typical, he thinks it will be found that the State organizations willingly accept the cooperation of the Reserve Banks and that they should be able to help the State Committees in organizing their work and, where the work is already organized, in furthering their sales program.

"In order that the Board may be kept currently informed as to the part the Federal Reserve Banks are taking in connection with the Defense Savings Bond Program, it will be appreciated if you will advise the Board what steps have been taken to establish and maintain contact with the Defense Savings Bond organizations in the States of your District and furnish it, not later than the tenth of each month, with a brief statement of the activities of the liaison officer at your Bank in connection with the Program."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Marie
Secretary.

Approved: Donald Hanson
Vice Chairman.