

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 4, 1941, at 1:30 p.m.

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

Mr. Morrill, Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Cravens, Consultant in the Division of Security Loans

Mr. Ransom stated that there had been under discussion the problem presented by the fact that one of the principal automobile manufacturers, the Chrysler Corporation, had not announced delivered prices for 1942 models of automobiles manufactured by it, which had raised the question of the action to be taken by the Board in view of part 3(a) of the Supplement to Regulation W, Consumer Credit, which provides that 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 but in no event in excess of $66 \frac{2}{3}$ per cent of the sum of certain items including the advertised delivered price of the automobile with standard equipment at the factory. He said that there had been proposed an amendment to the Regulation or a ruling to clarify this point, providing for the use of the last delivered price advertised by the manufacturer for a corresponding model, that he had discussed the matter with

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President Keller of the Chrysler Corporation who was in Washington today, and that, among other things, Mr. Keller said that, while his corporation had not yet advertised delivered prices for its 1942 models, the question of policy as to whether or when it would advertise such prices had not been determined. Mr. Ransom added that Mr. Keller had taken the position that it would be better if Regulation W did not require a down payment in connection with the purchase of a new automobile, even though that might involve shortening the term within which the instalment credit involved would have to be liquidated, and that he did not seem to be particularly disturbed about the possible effects of the proposed amendment or ruling in the event the Board adhered to the present policy regarding a down payment.

There followed a discussion of whether the action of the Board should take the form of an amendment or ruling under Regulation W, and it was agreed unanimously that the determination of that question should be held in abeyance for the time being, and that, regardless of what form the action took, the proposal should first be submitted to the Federal Reserve Banks, the President of the Federal Advisory Council, the automobile manufacturers, the National Automobile Dealers Association, the three principal automobile finance companies, the American Finance Conference, the members and their alternates of the advisory committee created by the President's executive order vesting consumer credit control in the Board of Governors, and such other interested parties as might be determined by Mr. Ransom, it being understood that those to whom the inquiry was addressed would be requested to submit such suggestions as they might have to offer not

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later than 1:00 p.m. on Monday, September 8, 1941.

At this point Messrs. Parry and Cravens withdrew from the meeting.

Mr. Ransom reported that this morning he and Mr. Goldenweiser attended a conference in the office of the Secretary of the Treasury at which there was present Secretary Morgenthau, Messrs. Jacob Viner, Walter W. Stewart, and Lauchlin Currie, Under Secretary Bell, and various members of the Treasury staff including Messrs. Haas, Murphy, and Bernstein from the Division of Research and Statistics of the Treasury. Mr. Ransom then made a statement substantially as follows with respect to what occurred at the conference:

Secretary Morgenthau stated that he had read with a great deal of interest Mr. Goldenweiser's memorandum to Mr. Haas under date of September 2, 1941, which discussed the question of the advisability of deferring long-term Treasury financing until after a decision had been reached in the matter of raising reserve requirements of member banks, that the members of the Treasury staff had been studying the matter, but that he had not formed an opinion, and that he would like to hear whatever views Messrs. Ransom and Goldenweiser wished to present from the standpoint of the Board of Governors.

Mr. Ransom stated that the first and most important question that he wished to raise was whether the Treasury had reached a decision as to when it might enter the market for long-term funds and Secretary Morgenthau replied that he had reached no decision and that he would like Mr. Bell to discuss the matter.

Mr. Bell indicated that the Treasury's point of view had not been definitely determined and would not be until more information was available as to the volume of sales

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of tax notes and defense savings bonds. However, he indicated the feeling that the Treasury might get along very well without long-term financing before the middle of October. Mr. Morgenthau then stated that he would prefer not to make any statement that might bind him to defer Treasury financing until a particular date, but would watch developments, as had been his custom, before making a decision.

Mr. Ransom then outlined the views of the members of the Board of Governors as he understood them from informal discussions which had taken place, and which were substantially along the lines indicated in Mr. Goldenweiser's memorandum to Mr. Haas. He emphasized that it was the over-all feeling of the members of the Board that nothing should be done that would conflict with the Government's defense effort or interfere with the financing of that effort and that, therefore, in the opinion of the members of the Board, agreement on the course to be followed with respect to reserve requirements was essential. He added that, in connection with the question whether reserve requirements should be raised to the full extent permitted by existing law, there was also the question whether action should be sought, either through legislation or through an executive order, to authorize the Board of Governors to absorb additional amounts of excess reserves to whatever extent might be necessary, and that it would be difficult to show the consistency of taking steps to curb inflationary developments by such measures as price limitations and consumer credit regulation without also taking steps in the over-all field of credit control to restrict the availability of bank credit through increases in reserve requirements. He also said that, while selective credit controls, such as consumer credit regulation, had a place in the program, the problems involved in the use of such controls were new and complex and experience with them had been extremely limited, that they involved serious questions of discrimination, and that he believed that they would not prove to be an adequate means of dealing with the over-all problem of expansion of bank credit.

Mr. Ransom then discussed various aspects of the interest rate problem involved in Treasury financing and the relation of the open market policy of the Federal Reserve System thereto, and stated that the Federal Reserve authorities were not so much concerned with the establishment and maintenance of any fixed rate of interest on Treasury

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obligations as they were with reaching an agreement with the Treasury on the important problem of what to do about an interest rate which had been steadily declining and might reach a real danger point at some time. He remarked that in the recent past a rate of 2 1/2 per cent on long-term Treasury obligations seemed to be regarded as reasonable, whereas today, due to a steadily rising Government bond market, there were a number of people who seemed to think that a 2 per cent rate would be adequate, and that he felt that some effort should be made to put a floor under rates which might otherwise continue the decline that had been taking place for some time. He felt that developments growing out of such trend, if continued, might entail difficult problems for the national economy. He said that because of these considerations he hoped - and he believed he was expressing the view of the other members of the Board - that the Treasury and the Board would reach an understanding at the earliest possible moment as to the policy to be followed with respect to Treasury financing, as well as with respect to action on reserve requirements both under existing statutory authority and under any new authority that might be obtained.

Mr. Goldenweiser participated in the discussion of the various points presented by Mr. Ransom.

In response to a request of Secretary Morgenthau for the views of Messrs. Viner and Stewart, Mr. Viner responded at length with a statement which showed that his thoughts on the general subject were fully in accord with the Federal Reserve position. He stressed particularly the need for an immediate decision on the questions of policy involved and also for a determination of the question whether additional authority was needed to absorb excess reserves, and stated that the latter point should be considered in reaching a decision whether to utilize the remainder of the existing authority of the Board to increase reserve requirements.

At this point it was stated by Mr. Bell that fairness to the investing public required that some indication be given as to the action that would be taken by the Board under existing authority and whether additional authority would be sought in order that the market might not be left in continuous uncertainty on these important questions.

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Mr. Stewart's remarks were in agreement with the comments made by Mr. Viner. He made it particularly clear, however, that his attitude towards the question of giving new authority to raise reserve requirements would depend on the formula that would be used, and his remarks indicated that he was opposed to the extension of the present procedure of raising reserve requirements by percentage steps but that he would favor the so-called "ceiling" plan which is also favored by Dr. Goldenweiser.

The members of the Treasury staff did not express themselves, but it was indicated that there was not complete agreement among them.

Mr. Currie was invited by Secretary Morgenthau to express his views if he wished to do so, and he stressed the importance of the earliest possible decision on the questions of policy.

Toward the conclusion of the conference, the Secretary indicated that he had made up his mind that a decision should be reached in the matter at the earliest possible date, and to that end he requested that Messrs. Ransom and Goldenweiser confer with members of the Treasury staff for the purpose of agreeing upon a statement (1) of the problems involved, (2) of the points of difference, if any, between the Board of Governors and the Treasury, and (3) of the extent to which there was agreement. Secretary Morgenthau requested that another conference on the matter be held in his office on Wednesday, September 10, 1941.

At this point Messrs. Thurston and Dreibelbis 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. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Referring your telephone inquiry Board is of the opinion that Federal Reserve Act is not to be construed as preventing a Class C director of a Federal Reserve Bank from serving as a director of the Central Bank for Cooperatives."

Approved unanimously.

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Letter to Mr. Luhnaw, Editor and Publisher of Trusts and Estates, reading as follows:

"This refers to your letter of August 25, 1941 to Mr. Wyatt inquiring whether, in the absence of legislation specifically authorizing the establishment of common trust funds, such a fund can be established and maintained in conformity with section 17 of the Board's Regulation F and, thus, be entitled to the favored tax status accorded funds which are so maintained.

"Subsection (a) of section 17 of Regulation F provides, in part as follows:

'Funds received or held by a national bank as fiduciary may be invested collectively in any Common Trust Fund established and maintained in accordance with the provisions of this section whenever the laws of the State in which the national bank is located authorize or permit such investments by State banks, trust companies, or other corporations which compete with national banks: Provided, however, That funds shall not be invested in a Common Trust Fund of the type provided for in subsection (d) of this section unless such investments are specifically authorized by the State statutes.'

"Accordingly, a common trust fund of the type provided for in subsection (d) of section 17 can not be maintained by a bank in conformity with the regulation unless the statutes of the State in which the bank is located specifically authorize the investment of trust funds by State institutions in such common trust funds. On the other hand, specific statutory authorization is not required for common trust funds of the types provided for in subsections (b) and (c) of section 17 and a bank can maintain a fund of either type in conformity with the regulation if the law of its State, statutory and otherwise, permits the investment of trust funds therein. In this connection, it should be borne in mind that, even though such investments otherwise are prohibited by the law of a State, they may be permitted where they are authorized by the terms of a trust instrument.

"The foregoing answers your question as to whether it is possible to maintain a common trust fund in conformity

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"with the Board's regulation in the absence of specific statutory authorization but we wish also to point out that a determination as to whether an investment of trust funds in a common trust fund conforms with the regulation can be made only on the basis of the facts of the particular case considered in the light of the applicable State law and the above-quoted and other provisions of the regulation."

Approved unanimously.

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

"Reg. W-23. The following articles are not included in any of the classifications of listed articles: Automobile trailers whether designed for use as living quarters or otherwise, or motor vehicles designed for use as ambulances or hearses."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

"Reg. W-24. Inquiries have been received as to whether Regulation W limits the amount of an instalment loan (as distinguished from the maturity of the loan) when the Registrant knows the loan is for the purpose of purchasing a listed article but the listed article is not pledged as collateral for the loan. The answer is that unless an extension of instalment credit is made by the seller of the listed article (whether as principal, agent or broker) as described in section 2(d), or unless the extension of instalment credit is secured, or to become secured, by a recently purchased listed article as described in section 5(a), the present regulation does not limit the amount of the credit (as distinguished from its maturity) regardless of the lender's knowledge that it is to be used to purchase a listed article."

Approved unanimously.

Telegram to all Federal Reserve Banks reading as follows:

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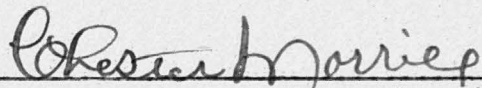
"Reg. W-25. An inquiry which may be stated as follows has been received under Regulation W:

'May first mortgage under section 6(a) be considered "first lien" even though a prior lien for current taxes not due and payable exists under State law?'

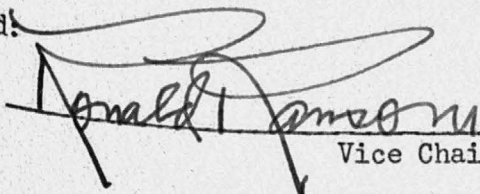
"The Board is of the opinion that in such a case the first mortgage is a 'first lien' under section 6(a)."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.