

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

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Cravens, Consultant in the Division
of Security Loans
Mr. Dembitz, Special Assistant in the
Division of Security Loans
Mr. Solomon, Assistant Counsel
Mr. Chase, Assistant Counsel

Mr. Ransom stated that there had been some delay in sending to the Federal Reserve Banks replies to questions presented by them under Regulation W and that the purpose of this meeting was to ascertain what, if anything, could be done to expedite the replies. It was pointed out that one of the most troublesome questions had arisen in connection with the application of the Regulation to arrangements under which musical instruments were leased with an option to purchase, and Mr. Ransom inquired whether the elimination of musical instruments from the list of enumerated articles in the Supplement to the Regulation would reduce the effectiveness of the Regulation to any material extent. The opinion was expressed and generally concurred in that the inclusion or exclusion of this item would not change materially the effectiveness of the Regulation and that if the matter were being

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considered originally it might well be excluded, but that to amend the Regulation at this time to eliminate musical instruments (other than pianos) undoubtedly would result in numerous requests for the exclusion of other articles now enumerated in the Supplement and that, therefore, such action should not be taken at this time.

Mr. Dreibelbis submitted and there was read a draft of telegram to the Presidents of all Federal Reserve Banks as follows:

"Reg. W-52. The Board has been asked several questions about the application of Regulation W to a case in which a Registrant rents a piano or other listed article to a customer and the rental contract includes an option giving the customer the right to purchase the article.

"Executive Order No. 8843, under the authority of which Regulation W is issued, and section 2(b) of the regulation, define 'extension of credit' as including 'any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee ... has the option of becoming the owner thereof ...' Therefore the type of contract to which the inquiry relates is subject to the provisions of Regulation W.

"Under these provisions it is necessary that, under such a contract, the Registrant obtain, at or before the delivery of the article to the lessee, a deposit equal to the amount of the down payment which the regulation would require upon an instalment sale of the listed article, and that the lease call for periodic payments in an amount not less than the amount of the instalments which Regulation W would require on an extension of instalment sale credit arising out of the sale of the article. In the event that the lessee decides to exercise his option to purchase the article, these payments, including the deposit, under the lease will serve in lieu of both the necessary down payment and the instalments which would have been due between the date of the original lease and the date the option to purchase is exercised, and the balance of the sale price may be paid

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"in instalments subject to the final maturity of 18 months from the date of the original lease. In the event that the lessee decides not to exercise his option to purchase, the Registrant may return to him the difference between the payments, including the deposit, which the lessee has made and the amount of rental that may have been agreed upon for the period that the lessee has retained the article, and it is permissible for the lease to contain a provision to this effect.

"It should be noted that the regulation does not apply to a bona fide rental agreement under which the lessee does not receive a transfer of ownership, does not obligate himself to pay as compensation a sum substantially equal to or in excess of the value of the article, and does not receive an option to purchase."

In response to an inquiry from Mr. Ransom as to whether any interpretation other than the one suggested in the above telegram was practicable, Mr. Dembitz stated that Mr. Brown, Special Assistant in the Division of Security Loans, had studied the matter and had advanced the suggestion that, since agreements of the kind referred to were bona fide rental agreements not entered into for the purpose of evasion, the position should be taken that it was permissible to make them without reference to Regulation W and that, if the lessee should elect to purchase the instrument, he should be required at the time of such election to make a down payment equal to the down payment required by the Regulation in connection with an ordinary purchase of the article less any rental payments that had been made.

At the conclusion of the discussion of the two positions, the interpretation contained in the telegram submitted by Mr. Dreibelbis, which was concurred in by Mr. Wyatt, was approved unanimously.

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There ensued a discussion of problems involved in other questions that had been submitted by the Federal Reserve Banks under Regulation W and of the steps being taken by the staff to determine the most effective solutions. Upon inquiry by Mr. Ransom, it was stated that from the information available it appeared that at least some of the Federal Reserve Banks had received a large number of inquiries which they had not been able to answer promptly. It was also stated that some of the Banks, including the Federal Reserve Bank of New York, had not adopted a policy of giving wide publicity to the interpretations of the Board, and at Mr. Ransom's suggestion, Mr. Szymczak agreed to suggest to Mr. Sproul, President of the Federal Reserve Bank of New York, that the Bank review its policy in this connection.

Mr. Dreibelbis stated that it was possible for the staff to approach the task of preparing answers to questions submitted by the Federal Reserve Banks either from the standpoint of trying to anticipate most or all of the questions that might arise in connection with a particular practice and to draft an answer covering all such questions or to confine the answer to the specific statement of facts submitted, and that his preference would be to follow the latter course.

It was agreed unanimously that the latter procedure should be followed whenever it was possible to do so.

During a further discussion of interpretations of Regulation W, unanimous approval was given to the following telegram to the Presidents of all Federal Reserve Banks:

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"Reg. W-51. The classification 'household furnaces and heating units for furnaces (including oil burners, gas conversion burners, and stokers)' includes heat generating sources such as furnaces and boilers, and appurtenances which form a part of such sources, individually or collectively installed, when such sources or appurtenances are designed for actual net out-put of 240,000 B.T.U. per hour or less. For purposes of determining the maximum amount of credit the bona fide cash purchase price of such equipment is considered to include the cost of installation and the cost of accessories such as fuel oil storage tanks, heat control units, or coils for heating domestic hot water installed at the time of the installation of the furnace, boiler or heating unit. The classification does not include piping, ducts, radiators, convectors, or registers installed in connection with such equipment, but it is to be noted that these items may fall within the classification of materials and services referred to in Group E of Part 1 of the Supplement."

Unanimous approval was also given to the following telegram to Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco:

"Assuming order is received by Sears Roebuck in Los Angeles and goods are shipped from there to purchaser in Hawaii, transaction is not exempted by section 9(i)."

At this point Messrs. Wyatt, Dreibelbis, Cravens, Dembitz, Solomon, and Chase 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 the Presidents of all of the Federal Reserve Banks reading as follows:

"Referring last paragraph Board's letter R-880, please furnish, in the same form as Table 2, two additional tables, one showing the dollar amount of demand deposits excluding interbank deposits on June 30, 1941, of banks in each group, and the other showing the dollar

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"amount of change in such deposits between June 1938 and June 1941 of banks in each group. These new tables should be mailed as soon as practicable. The forms requested in the Board's telegram of September 6, showing the information for individual member banks, should be forwarded to Board as soon as the additional tables have been completed."

Approved unanimously.

Memorandum dated September 9, 1941, from Mr. Nelson, Assistant Secretary, recommending (1) that Marion E. Wright, a page, be appointed on a permanent basis as a stenographer in the Secretary's Office, with salary at the rate of \$1,440 per annum, effective September 16, 1941; and (2) that Thomas H. Gad be appointed on a temporary basis for an indefinite period as a page in the Secretary's Office, with salary at the rate of \$1,260 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.

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

"As suggested in your letter of September 4, 1941, the Board 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 \$500,000 and over, Group 2 of banks with capital and surplus of over \$100,000 but less than \$500,000, and Group 3 of banks with capital and surplus of \$100,000 and less."

Approved unanimously.

Letter to the board of directors of "The Liberty Bank", Ada,

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Ohio, 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 Cleveland.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Liberty Bank', Ada, Ohio, 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 Superintendent of Banks for the State of Ohio for his information.

"It is noted that with respect to savings deposits withdrawals the examiner, on page 16 of the report of examination for membership, states that the 'bank has no written regulations, and pass-book does not provide for notice.' It is assumed that the bank's attention will be called to the requirements of the Board's Regulation Q and that, in order to comply therewith, the bank will take such action as may be necessary to reserve the right to require the depositor to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made."

Letter to the Securities & Exchange Commission, reading as follows:

"It is understood, from informal conversations between members of the staffs of the Board and of the Securities & Exchange Commission, that an investigation has been made by representatives of the Commission covering the activities of the trust department of the Monticello State Bank, Monticello, Iowa, as trustee for the

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"Commercial Investment Corporation of Davenport, Iowa, now in receivership; and that a report covering the investigation has been made and filed with the Commission. It is also understood that a copy of the report has been furnished the Department of Justice for such action as that department might deem necessary to take.

"In view of the implications present under the circumstances, possibly having an important bearing upon the ability and integrity of the managing officers of the State bank, which is a member of the Federal Reserve System, it will be appreciated if a copy of the report of your investigator is furnished to the Board. If no copy is available, or if, because of its confidential nature, you are unwilling to release it, please advise if you would permit an inspection thereof to be made in your office by Messrs. Baumann and Chamberlin of the Board's legal and examinations staffs, respectively.

"The report requested is desired for informational purposes of the Board in connection with its supervision of State member banks, and would, of course, be held strictly confidential."

Approved unanimously.

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

"Reg. W-50. The Board has been asked whether a piece of furniture, such as a table, lamp, or bed, having a radio built in and a composite part of the article is to be classified as household furniture or as a radio. The classification depends upon the relative value of the component parts. If the value of the radio is greater than the value of the table, lamp, or bed as a separate piece of furniture, then the article is to be classified as a radio."

Approved unanimously.

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

"Reg. W-53. An inquiry which may be stated as follows

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has been received under Regulation W:

"Section 8(d) refers to statements of necessity as provided in paragraphs (a), (b) and (c) of section 8. However, paragraph (c) does not contain the words 'statement of necessity'. Is the 'written statement' described in section 8(c) to be regarded as a 'statement of necessity'? If the answer is in the affirmative, would it be desirable as a practical precaution for any bank or other lender extending instalment loan credit to take, in every case, the written statement referred to in section 8(c)?

"The written statement referred to in the last sentence of section 8(c) is not a 'statement of necessity' of the kind referred to in section 8(d). Section 8(c) refers to statements of necessity only to the extent that it incorporates by reference certain requirements of 'section 8(a) or 8(b), including the provisos thereof'. With respect to last part of inquiry, see W-33."

Approved unanimously.

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

"Reg. W-54. An inquiry which may be stated as follows has been received under Regulation W:

"Section 8(a) provides that the requirements of sections 8(a), (b) and (c) do not apply 'to any renewal or revision' of an extension of credit made prior to September 1, and provides in effect that any such extension of credit may be renewed or revised once on or after September 1. Do the same principles apply to an extension of credit to retire an obligation held elsewhere, assuming the latter covers an extension of credit made prior to September 1?

"Section 8(e) refers specifically to section 8(c), and therefore the same principles apply as in the case of a renewal or revision by the original obligee. These principles are discussed in W-19 and W-28."

Approved unanimously.

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

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"Reg. W-55. A question has been received under Regulation W concerning a sum of \$50 to \$100, sometimes called a 'pack', which a dealer may at times include in the price of an automobile as quoted to customers. When the automobile is sold, all or part of this sum may be eliminated from the price actually paid by the purchaser, either by an increase in trade-in allowance or by way of discount on cash purchases. The question is whether, in determining the maximum credit that can be extended to the customer, such an extra sum of \$50 to \$100 may be included, either as part of the 'bona fide cash purchase price' of the automobile and accessories or, in the case of a new automobile, as part of Item 1 or Item 4 of Part 3(a) of the Supplement.

"In determining what is the 'bona fide cash purchase price' of a given automobile to be used in determining the maximum amount of credit under Part 3, padding of any kind -- such as the 'pack' referred to in the question if it is to be eliminated from the price actually paid by the customer by an increase in trade-in allowance or by some other device -- must be excluded. In the specific case of a new automobile the maximum credit value can in no event exceed $66 \frac{2}{3}$ per cent of the sum of Items 1 through 4 of Part 3(a) of the Supplement, and a \$50 to \$100 sum such as that described in the present question could not be included in any of these four items."

Approved unanimously.

Letter dated September 8, 1941, from Mr. Hays, Vice President of the Federal Reserve Bank of Cleveland, inquiring as to the correctness of proposed rulings by the bank under Regulation W (1) that extensions of instalment credit covering the sale of pianos to churches are not exempt from Regulation W, and (2) that the down payment required by the Regulation must be made at or before the time of the completion of the installation of gas appliances in the circumstances referred to in the interpretation and the unpaid balance must have a maximum maturity of not exceeding 18 months from date of completion.

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The Secretary was requested to advise Mr. Hays by wire that both rulings were correct.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"I have brought to the attention of the Board your wire of September 3 in response to the Board's letter of August 26 in regard to the decentralization of the administration of Regulation W and particularly with respect to the phase of it which involved the designation of a specific officer at the head office and at each branch to be in charge of this activity.

"It is recognized by the Board that the organization at each Federal Reserve Bank and branch should be such that it will be flexible and most responsive to every demand that is made upon it and that the organization finally heads up in the President of the Bank as its chief executive officer. At the same time, as you know, it is also an essential characteristic of every sound organization plan that responsibilities for particular activities be so distributed that there will be some officer below the President who will be primarily responsible for each particular function. The organization of your own Bank exemplifies this point of view because you have assigned each activity to a particular department, at the head of which there is an officer who, directly or indirectly, reports to the President. This is as it should be because it is not expected that the President shall be tied to any one department more than to any other over which he has general supervision.

"In the setup of each Federal Reserve Bank, aside from its routine operating functions, recognition also has been given to the fact that there are certain responsibilities of the Board of Governors for which special provision has been made. These relate principally to bank examination and to statistical and research functions, which were formerly under the Chairman and Federal Reserve Agent, and more recently to the Defense Contract Service unit. The Board has a special responsibility with respect to the administration of Regulation W, which was adopted under an Executive Order that placed the responsibility for the regulation upon the Board of Governors as the appropriate agency of Government.

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"In its relations with the Federal Reserve Banks with respect to the functions for which the Board has a special responsibility, it has always found it of particular help to be able to contact an official who has been specifically assigned by the Bank to supervise such functions. The Board believes that its responsibility can be met most satisfactorily, from the standpoint of the Government and of the public, if there is a designated official at each Reserve Bank familiar with the subject with whom matters can be taken up directly both by the Board and by the public. It seems to the Board that this procedure is in substance the same as that followed with respect to all the functions of the Bank since certain officers at both head offices and branches are assigned to perform specific functions. In all these cases, however, it is assumed, as a matter of course, that every officer, regardless of his designation, functions under the general supervision of the President, who, under the law, is the chief executive officer of the Bank.

"All of the other eleven Reserve Banks have followed the suggestion embodied in the Board's letter of August 26, and the Board feels that it will make for better results throughout the System in the discharge of the special responsibility imposed by Regulation W if the same procedure is followed in the case of your Bank."

Approved unanimously.

Cablegram dated September 5, 1941, addressed by Alvin Smith of the Discount Corporation and Credit Men's Association of Honolulu, Hawaii, to Rolf Nugent of the Office of Price Administration and Civilian Supply and by the latter referred to the Board for consideration. The cablegram recommended that Regulation W be amended to make it applicable to extensions of instalment credit in Hawaii.

The Secretary was requested to cable Mr. Smith that his suggestions were being considered.

Letter to Mr. Sproul, President of the Federal Reserve Bank

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of New York, reading as follows:

"This refers to your letter of September 5, 1941, with regard to factors responsible for an estimated over-run of \$90,443 in the budget estimate for air conditioning your building and asking that the Board interpose no objection to an increase of \$92,500 in the approximate total expenditure.

"It is noted that of the estimated increase in the expenditures necessary to complete the installation of air conditioning, \$20,350 is attributed to increased cost of labor and material due to conditions caused by defense work and priorities orders and that \$11,528 is attributed to improvements in design to afford flexibility and economies in operation.

"In view of the various conditions set out in your letter and the action of your board of directors, the Board will interpose no objection to the expenditure of approximately \$1,465,000 for air conditioning your building."

Approved unanimously.

Mr. Draper suggested that the Board authorize the payment of the cost of luncheons served in the Board's dining room today to Messrs. Andres Boulton, President of the Chamber of Commerce of Caracas, Venezuela, and Jesus Herrera-Mendoza, President of the Central Bank of Venezuela.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

James H. Johnson
Vice Chairman.