A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 20, 1941, at 12:30 p.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, Assistant General Counsel

Mr. McKee referred to memoranda addressed to the Board by Mr. Dreibelbis under dates of September 18 and 19, 1941, regarding the Danmarks Nationalbank, calling attention to memoranda received from the Federal Reserve Bank of New York containing the following information:

About two years ago the Danish Legation leased from the German Ambassador, for a term expiring October 1, 1941, the building formerly occupied by the Austrian Legation, which lease contained an option to purchase the building for $80,000. The Danish Minister has informed the State Department that the Danish Legation would like to exercise the option. Mr. Berle, Assistant Secretary of State, told the Minister that he saw no reason why he should not do so and saw no reason why he should not utilize $200,000 of the funds in the blocked account of the Danmarks Nationalbank with the Federal Reserve Bank of New York for this purpose, the authority of the Minister to give the instructions in relation to the $200,000 to be certified by the State Department under the recent amendment to Section 25(b) of the Federal Reserve Act. It was understood that the $120,000 desired in excess of the $80,000 purchase price is for other expenses in connection with the building, possibly for alterations, furniture, etc.

Since the invasion of Denmark the New York Bank has continued to permit the operation of the Danmarks Nationalbank account on instructions from the officers of the bank at Copenhagen who are designated as the authorized signatories in the bank's signature circular. The account has been quite active, and the New York Bank has executed through it numerous transactions in which the State and Treasury Departments have been interested and which those Departments have requested the New York Bank to arrange with the Danmarks Nationalbank. In order to induce the Danmarks Nationalbank to handle such payments, the New York Bank has, under appropriate licenses from the Treasury Department, established a special "free" account for the bank, to which it has credited the dollar payments to the bank against which the bank has made the requested payments in Denmark.

The New York Reserve Bank has recognized and acted on the instructions of the officers of the bank at Copenhagen, notwithstanding that the State Department said (following the Danish Government's repudiation of the Danish Minister after the Minister had made the agreement with our State Department in relation to air bases in Greenland) that the Government of the United States had recognized since the invasion of Denmark in April 1940 that the Government of Denmark "is patently acting under duress". The New York Bank feels that there is less danger in acting on such instructions than there would be in refusing to do so. It has had no indication that the Germans are exercising any coercion with respect to the Danmarks Nationalbank, and, in fact, such informal and hearsay evidence that it has indicates the contrary.

The officers of the New York Bank feel that to act on the certified instructions of the Danish Minister with respect to a $200,000 payment would seriously prejudice the New York Bank's position with respect to having relied on the instructions of the officers of the Danmarks Nationalbank in the past, and with respect to the future reliance upon such instructions, and that in acting upon such instructions without similar instructions or confirmation from the Danmarks Nationalbank, the Reserve Bank would be inviting an almost certain lawsuit. Consequently, the officers of the New York Bank indicated informally to the Treasury and State Departments that they consider that the

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request to make such a payment would involve serious risk to the Bank, that they would object to any such request and that they hope such a request will not be made.

If, however, the State Department is insistent about the matter and wishes to certify the Minister's authority to direct the payment, notwithstanding such objection, and the refusal to honor such request would appear to prejudice the relationship of the New York Bank with the State Department and the whole procedure of certification under the statute, the officers would probably feel that the lesser of the evils would be to make the payment on the instructions of the Minister provided that the Minister's authority to make the payment is certified and provided also that certification is made to the effect that Danmarks Nationalbank operating in Copenhagen is recognized as the central bank of Denmark and is recognized as having authority to control and dispose of all property in the account on the books of the New York Bank in the name of that institution, so that all future payments from the account would be made on instructions given pursuant to authority certified under the statute.

Mr. Dreibelbis said that the State Department was extremely anxious that some way be found to make it possible for the Danish Minister to make the payment necessary for the exercise of the option in question and had taken the position very strongly that the New York Bank should act on a certificate as to the authority of the Minister to make the payment out of the Danmarks Nationalbank's account. He said that Mr. Logan of the New York Bank had advised him that Mr. Berle had called him on the telephone yesterday evening and was very insistent that the New York Bank agree to handle the transaction in question, and all subsequent transactions with respect to the account of the Danmarks Nationalbank, on the basis of certifications which would be issued by the Secretary of State certifying to the authority of the

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Danish Minister and the Danmarks Nationalbank, respectively, under section 25(b) of the Federal Reserve Act, as amended. In response to a question by Mr. McKee, Mr. Dreibelbis indicated that he felt the Federal Reserve Bank of New York would not be justified in refusing to go along on that basis.

Mr. McKee stated that he did not see that any action by the Board was called for at this time, but that he wished to apprise the other members of the Board regarding the matter so that, in the event there was objection, they would have an opportunity to express themselves before the matter was closed.

At this point Messrs. Thurston, Goldenweiser, Smead, 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 19, 1941, were approved unanimously.

Telegram to Mr. Sproul, President of the Federal Reserve Bank of New York, prepared by Mr. Morrill in accordance with the action taken by the Board on September 17, 1941, and reading as follows:

"The Board approves of your Bank offering to the other Federal Reserve Banks, and the acceptance by those Banks of, proportionate further participation in the accounts listed in your letter of August 6 and in the other accounts since then opened and maintained by your bank with the approval of the Board of Governors or under the terms of the 'Procedure with Respect to Foreign Relationships of Federal Reserve Banks' (X-9774) in which the

"Federal Reserve Bank of Boston has declined to participate; also in the loan against gold of not in excess of one million dollars to Banco Central de Reserva de El Salvador, approved by the Board of Governors by telegram of June 27.

"Copies of this wire being sent to other Federal Reserve Banks, and it is understood you contemplate presenting matter to Presidents at time of forthcoming Presidents' Conference."

Approved unanimously.

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

"Reg. W-76. If a new automobile is sold at a discount, and the 'bona fide cash purchase price' is therefore less than the sum of items 1 through 4 of Part 3(a) of the Supplement, the maximum credit value is limited to 66 2/3 per cent of the 'bona fide cash purchase price'."

Approved unanimously.

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

"Reg. W-77. An inquiry which may be stated as follows has been received under section 8(f) of Regulation W:

A purchaser buys an automobile costing \$600 and tenders his old car, which is worth \$200, as the required down payment. Purchaser owed a finance company \$100 on the old car, which was part of its unpaid purchase price, but the purchaser was able to make arrangements with the finance company whereby the automobile was released as collateral to this loan and there was substituted therefor miscellaneous collateral other than listed articles and he was able to obtain a clear title for the purpose of making a trade-in. Assuming in each case that the Registrant involved knows or has reason to know of the \$100 transaction: (1) May a finance company, other than the one which extended credit

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"on the old car, lend 66-2/3 per cent of the purchase price of the new car when the loan is secured by the new car? (2) May the finance company which extended credit on the old car make a separate loan to the same individual equal to 2/3 of the purchase price of the new car when the collateral for the loan is the new car? (3) May a finance company make two loans to the purchaser, one secured by the new car equal to 2/3 of its purchase price, the other secured by miscellaneous collateral other than listed articles, to pay the $100 which the purchaser owes the other finance company?

"Section 8(f) in effect prohibits extensions of instalment sale credit under section 4, or of secured instalment loan credit under section 5(a), in any case in which '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.'

"The down payment in the present case is represented by the old car, which is not sufficient for this purpose unless taken at its full value without regard to the amounts still owed by the customer for its purchase. The down payment therefore includes the $100 of credit which is outstanding for the purchase of the old car, and the result is that this $100 brings the total credit in connection with the transaction beyond the maximum credit value of the new car. Accordingly, when, as stated in the question, the Registrant knows or has reason to know of these facts, the extension of credit is prohibited in each of the three cases presented in the question."

Approved unanimously.

Telegram to Mr. Hodge, Assistant Counsel of the Federal Reserve Bank of Chicago, reading as follows:

"Retel September 18. Your conclusion correct. Section 8(f) (Regulation W) applies to Registrant extending

"instalment loan credit or instalment sale credit if Registrant knows of side loan which would bring total amount of credit extended in connection with purchase above maximum fixed either by section 4(a) or section 5(a)(1)."

Approved unanimously.

Telegram to Mr. Hodgson, Assistant Counsel of the Federal Reserve Bank of Minneapolis, reading as follows:

"In re question 14 your wire September 2 if replacement for heating plant consists of new furnace or boiler or new heating unit such as oil-burner, replacement comes within Group D-1 of Supplement (to Regulation W). If repair parts only are involved, the materials and services come within Group E. See also Ruling W-62."

Approved unanimously.

Letter to Mr. Rolf Nugent, Director of the Department of Consumer Credit Studies of the Russell Sage Foundation, reading as follows:

"A reply to your letter of September 4, 1941, to Mr. Ransom in which you suggest the selection by the Board of a small technical advisory committee to supplement general meetings with the 'trade' for the consideration of problems arising under the consumer credit regulation issued by the Board, has been delayed until the matter could be discussed with the members of the Board.

"It is the feeling of the Board that in a period when the demands on its staff were not as great as at present and there was more time to consider some of the more technical problems connected with consumer credit, a committee such as you suggest might be of real assistance. However, the existence of such a body would constitute another point through which matters ordinarily would be cleared and as long as the urgency for prompt decisions in connection with the interpretation and amendment of Regulation W continues, it is believed we should adhere to the plan of having available on the Board's staff the services of three or four experts in the various fields of consumer credit and of conferring with the consultative committee created by the President's executive order and,

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"whenever necessary, with the representatives of the 'trade' either directly or through the Federal Reserve Banks.

"In following this plan it is expected that the Federal Reserve Banks will become increasingly effective in developing information in their respective districts with respect to many of the technical phases of consumer credit, and that this information will be available to us in the solution of many of the problems that will arise, and it is the hope of the Board that as the System gathers experience in administering the Regulation the need for advice on matters of technical detail will be greatly diminished."

Approved unanimously.

Letter to Mr. Henry D. Brite, Commercial Manager of the Electric Home and Farm Authority, reading as follows:

"This will acknowledge receipt of your six letters of September 16 and your letter of September 10 containing questions regarding Regulation W. For convenience, the answer given below is preceded in each case by your question.

"Question: Regulation W-58 states: '--bank which discounts an obligation which is subject to the Regulation is not obliged to ascertain whether the original lender is a duly licensed Registrant'. Does 'bank' include instalment financing institutions of all types? Does the word 'discounts' exclude financing institutions which purchase customer obligations from dealers or others at the full value of the instrument, less finance charges?

"Answer: The word 'bank' in the above ruling includes all types of instalment financing institutions; and the word 'discounts' includes purchases as well as discounts (see section 3(a)(2)(B) of the Regulation).

"Question: The last sentence of Regulation W-28 reads as follows: 'As indicated in W-19, the consolidation of a pre-September credit with a new credit has the same effect, for the purposes of this question, as a renewal or revision of the pre-September credit'. This statement seems to be in conflict with the general intent of W-19 inasmuch as it could be interpreted to mean that a consolidation of a pre-September credit with a new

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"credit could run for the unexpired term of the pre-September credit even though such term may be considerably more than 18 months.

"Answer: The sentence quoted from W-28 is merely in the nature of a cross reference to W-19 and was intended to convey the thought that consolidation of a pre-September credit with a new credit amounts to an exercise of the privilege of making one renewal or revision, with the result that a subsequent renewal or revision is governed by the same rules as a second renewal or revision of a pre-September credit. As stated in paragraph 2 of W-19, the mere act of consolidating two separate obligations can confer no greater privileges than would apply if the obligations were treated separately, and this means that the new credit could not be for more than 18 months, whether or not it was consolidated with a pre-September credit.

"Question: A purchaser buys a refrigerator or another listed article from a department store on open account and, therefore, does not sign a contract calling for scheduled payments. The purchaser agrees to repay the obligation at about \$25.00 in two months, \$40.00 at the end of another three months, \$15.00 at the end of another two months, etc. Does such an open account transaction comply with the Regulation even though no down payment has been made and the term of the obligation could conceivably run for more than eighteen months?

"Answer: If the question means that the purchaser agrees, when the credit is extended, that he will repay according to the schedule stated, the seller has made an 'extension of instalment credit' as defined in section 2(c) of the Regulation because the purchaser has undertaken to repay in two or more scheduled payments. On the other hand, if the agreement at the time of sale was that the article would be paid for in one payment, and the agreement is subsequently revised, the question is covered by W-47.

"Question: May a person obtain a cash loan from a bank or personal finance company and use the proceeds of such loan to cover the full purchase price of a listed article, offering the listed article purchased as security for the loan?

"Answer: If the article is not taken as security for the loan, or if the article was purchased more than

"45 days prior to the making of the loan, no down payment is required (section 5(a), and see W-37). However, if the article secures the loan and was purchased within 45 days prior to the making of the loan, or is to be purchased at any time thereafter, a down payment is required.

"Question: Electric Home and Farm Authority has contractual arrangements with a number of privately owned and publicly owned utilities which act as agents for the Authority in billing and collecting monthly instalments from consumers who have purchased listed articles on the EHFA instalment plan. In some instances the utilities as agents for the Authority advance the proceeds of the customer contracts to the dealer making the sale. Such funds are promptly repaid to the utility by the Authority. In other instances utilities do not advance funds to dealers. In both instances, however, utilities bill and collect monthly instalments from the customer and remit such collections to the Authority. Are either or both classes of utilities required to register under Regulation W?

"Answer: Apparently the utilities are doing nothing more than acting as agents for the Authority in billing and collecting monthly instalments. Apparently the sales and the extensions of credit are made by the dealers and by the Authority. In the circumstances, the utilities are not required to register (see first part of section 3(a)).

"Question: What constitutes a 'bona fide collection effort by the Registrant'?

"Answer: No general rule can be laid down regarding what constitutes a bona fide collection effort, except that it is not essential that there be court action. This provision in section 8(a) contemplates all the great variety of eventualities which may occur, and the corresponding variety of collection efforts and arrangements which may be made.

"Question: A purchaser buys one listed article and one unlisted article and desires to finance the transaction on one contract. The purchaser has a trade-in which he desires to apply as the down payment on the unlisted article. Will the dealer making the sale and the financing institution handling the transaction comply with Regulation W if this type of sale is accepted?

"Answer: The answer is in the affirmative. The

"matter is covered by section 4(g) of the Regulation."

Approved unanimously.

Letter to Mr. Beneman, Union Trust Building, Washington, D. C., reading as follows:

"Reference is made to your letter of September 11, which was delivered in person by your Mr. Morrison to our Mr. Bradley and which asks certain questions regarding the provisions of the Board's Regulation W.

"It is assumed, in replying to your questions, that the 'add-ons' to which you refer result from the sale of 'listed articles'. It is also assumed that they occur prior to November 1, 1941, since the provisions of section 8(b) of the regulation relating to 'add-ons' do not become effective until that date, and since there exists the possibility of amending those provisions prior to that date.

"The answer to the first four questions in your letter is in the affirmative, providing the payments described occur, in accordance with section 4(d), 'at approximately equal intervals not exceeding one month'.

"As to your fifth question, it is suggested that it is rather clearly answered by the provisions of section 4(g). If this is not the case, it is suggested that the question be restated, or that it be clarified by an example.

"Your understanding of the answer to your sixth question is correct, providing the 'account started before September 1, 1941' is not renewed or revised, and providing also the provisions of section 4(g) are complied with.

"The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches, and inasmuch as you are located in the district of the Federal Reserve Bank of Richmond, it is hoped that it will be convenient for you to address any further questions you may have regarding the regulation to that Bank."

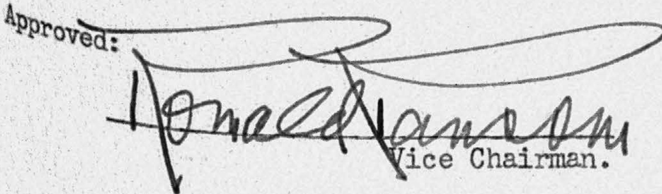
Approved unanimously.

9/20/41

Thereupon the meeting adjourned.

Secretary.

Approved:



Vice Chairman.