A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 24, 1941, at 11:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 23, 1941, were approved unanimously.

Memorandum dated September 19, 1941, from Mr. Parry, Chief of the Division of Security Loans, recommending (1) that if the Federal Housing Administration was willing to give him a leave of absence for the purpose, Arthur Frentz, Assistant to the Assistant Administrator of the Federal Housing Administration, be appointed on a temporary basis for a period of not to exceed 90 days as a consultant in the Division of Security Loans with salary at the rate of $6,500 per annum, effective as of the date upon which he enters upon the performance of his duties, and (2) that authority be granted to have the matter taken up with Mr. Ferguson, Administrator of the Federal Housing Administration. The memorandum stated that from inquiries that

had been made there appeared to be no one better qualified than Mr. Frentz to lend assistance on problems arising under Regulation W, Consumer Credit, in connection with real estate modernization loans.

Approved unanimously.

Memorandum dated September 20, 1941, from Mr. Bethea, Assistant Secretary, recommending (1) that the voucher submitted for Mr. Cravens, Consultant in the Division of Security Loans, covering travel expenses and per diem for the period August 5 to September 10, 1941, in the amount of $488.28 be approved, and (2) that continuing authority be granted to pay Mr. Cravens a per diem of $10 during the period of his temporary employment with the Board, in addition to his actual necessary travel expenses between Cleveland and Washington, as well as his actual necessary travel expenses to and from such other points in the United States to which he may be sent under proper written travel authorization on official business of the Board.

Approved unanimously.

Letter to Mr. Berle, Assistant Secretary of State, prepared in accordance with action at the meeting of the Board on September 23, 1941, and reading as follows:

"The Board of Governors of the Federal Reserve System is glad to accede to your request of September 17 that it designate members of its staff to assist the Cuban Government in preparing central bank and other financial legislation. For this purpose it has selected Mr. Gardner, head of the International Section of the Division of Research and Statistics, and Mr. Vest, Assistant General

"Counsel of the Board. The Board will undertake to pay the expenses of these men while they are serving on the mission, which it understands will remain in Cuba for a period of perhaps four weeks."

Approved unanimously.

Letter to the board of directors of the "Bremen State Bank", Bremen, Indiana, stating that, subject to conditions of membership numbered 1 to 6 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 Chicago.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Bremen State Bank', Bremen, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It is assumed, however, that proper provision for losses will be made as a matter of sound banking practice.

"It is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank. Therefore, you are authorized, in accordance with the general authorization previously granted by the Board,

"to waive compliance with condition of membership numbered 6 until further notice.

"On the date of examination for membership deposits were substantially in excess of the average for the past several years, and according to the examiner the bank will probably continue to experience some growth. While it is said that earnings should be sufficient to cover increases in deposits, the common stock amounts to only $30,000 and is not in keeping with the size of the bank. In his letter to the Reserve Bank regarding the application the F.D.I.C. Supervising Examiner refers to the relatively small amount of common stock and suggests that in connection with retirements of debentures provision be made for increasing common stock, and it is assumed that the matter will be given appropriate attention when the time comes to pass upon future retirements of debentures."

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

"Reference is made to your letter of September 8, 1941, submitting a request of The Ohio-Merchants Trust Company, Massillon, Ohio, for permission under the condition of membership numbered 8, to acquire additional certificates of equitable ownership in the banking building which it occupies under lease, through the purchase at a discount of such certificates up to a par amount of $250,000, the total investment as carried on its books not to exceed $125,000.

"The Board after a review of the information submitted has concluded that there are no developments in the situation which would cause it to change the position taken as expressed in its letter to you of March 28, 1939, in which a similar request of the trust company was denied.

"In addition to the aspects of the matter commented upon in that letter there appears to be serious doubt as to whether the trust company in purchasing the certificates which represent the interests of beneficiaries under a trust administered by it would be properly discharging its obligations as trustee, particularly in view of the purpose for which the purchases would be made, and the fact that they are to be made at low or perhaps bargain prices.

"In the absence of a satisfactory showing that such purchases would be in conformity with the law of the State of Ohio, this doubt as to their propriety, and the danger of embarrassing litigation and possible liability furnishes added support for the position previously taken."

Approved unanimously.

Letter to Mr. Evans, Vice President and Secretary of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to Mr. Ford's letter of August 13, 1941, with enclosures, recommending that the Board not require publication by The First State Bank of Taft, Taft, Texas, of reports as of the December 31, 1940, April 4, 1941, and June 30, 1941 call dates for certain organizations which an examination of the bank as of July 8, 1941, disclosed to be affiliates.

"It appears that the failure to file and publish the required reports resulted from the fact that the bank, which was admitted to membership on November 25, 1940, did not realize that such organizations were affiliates and that, upon the matter being brought to the bank's attention, steps designed to terminate the affiliate relationships were taken. Mr. Ford expressed the view that the publication at this time of the reports as of past call dates would serve no practical purpose and, in the circumstances, the Board, in accordance with his recommendation, will not insist upon their publication.

"However, the Board is not prepared to agree that the organizations in question are not now affiliates of the bank. It does appear that, by the resignation of directors of the bank from the boards of directors of the affiliates and the election of their wives or the wives of other directors of the bank to fill the vacancies, the affiliate relationships arising under section 2(b)(3) of the Banking Act of 1933 were terminated but the Board is not satisfied that affiliate relationships do not exist under section 2(b)(2) of that Act.

"It appears that, for the purpose of terminating such relationships, certain shareholders of the bank, following the recent examination, transferred stock of C.M.C. Oil Company and Cage Drilling Company, Inc., to their wives. Similar action was taken in the case of

"Cage Hardware & Furniture Company following the examination for membership. In such circumstances, it may be assumed, in the absence of strong evidence to the contrary, that there in fact has been no change in the ownership of the stock or at least in its control. Parenthetically, in another case in which similar transfers were made, inquiries from the Bureau of Internal Revenue revealed that, for the purposes of Federal taxation, the persons involved successfully contended that there had been no change in the ownership of the stock. Aside from the effect of the stock transfers, it should be borne in mind that, in some circumstances, an organization may be controlled by shareholders of a bank even though such shareholders own or control less than a majority of the organization's shares of stock. In determining whether that is the case, consideration may properly be given to the facts concerning the election of directors of the organization at the preceding election.

"With respect to Cage Implement Company, Inc., and L. A. Cage Production Company, relationships of the kind described in section 2(b)(2) have not been reported, but there appears to be such a community of interest between these organizations and their shareholders and the bank and its shareholders as to suggest that full information concerning the true ownership and control of the stock of such organizations and the bank might reveal the existence of affiliate relationships. This also is true with respect to Palm-Meadow Oil Company, an organization which has not been reported as an affiliate.

"Please advise First State Bank of Taft in the light of the foregoing, and advise us as to the results of your discussions or correspondence with the bank. Incidentally, attention is called to the fact that, while Cage Implement Company, Inc., was reported, on page 21(a)-(4) of the current report of examination, to be an affiliate of the bank by reason of interlocking directorates, it was stated that directors of the bank constituted only 4 of the company's 10 directors instead of a majority as provided in section 2(b)(3) of the Banking Act of 1933."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of August 30, 1941, transmitting a memorandum from Mr. W. H. A. Johnson, trust examiner for your bank, in connection with the application of The First National Bank of Arcola, Arcola, Illinois, for permission to exercise fiduciary powers.

"In its letter of July 25, 1941, the Board advised you that it had deferred action on the bank's application pending a review of the report of the next examination of the bank made by national bank examiners and requested that the matters referred to in the Board's letter be covered as fully as practicable in such report, the purpose being to give the bank an opportunity to fully present its case and to obtain the examiner's appraisal of the situation in the light of any information submitted. After consideration of the facts developed by Mr. Johnson, you state that, after you have received a copy of the report of the next examination of the bank, you will discuss this matter with Mr. Hicks, the chief stockholder of the bank, and that perhaps you can settle the matter to the mutual satisfaction of all concerned, having in mind that the application may be withdrawn.

"Accordingly, the Board deems it unnecessary to give further consideration to this case until it has received further advice and recommendation from you."

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Enclosed herewith is a copy of an opinion by Dorsey & Baldrige, Attorneys, Omaha, Nebraska, addressed to Mr. Robert E. Marek, President, The First National Bank of Wayne, Wayne, Nebraska, concerning the desire of such bank to surrender its right to exercise fiduciary powers. A copy of the opinion was furnished to the office of the Comptroller of the Currency by Mr. Marek and in turn transmitted to the Board, Mr. Marek being advised of the reference.

"Copies of the reports of investigations made by National Bank Examiner C. R. Anderson in connection with this matter were forwarded to your bank with the Board's letters of April 21 and July 3, 1941. While not expressly

"stated, it appears from such reports that the examiner was satisfied that the duties of the bank as fiduciary have been completely performed and that the bank has been discharged or otherwise properly relieved of all of its duties as fiduciary, except with respect to four trusts created by Mr. John T. Bressler, Sr.

"The examiner reported that these trusts were created, apparently in April, 1931, by the deposit of certain property by Mr. Bressler with the bank to be held in trust under agreements entered into by him and the bank; that on October 16, 1933, Mr. Bressler served notice on the bank of his intention to withdraw the property deposited with the bank; and that presumably the property was surrendered to him on October 18, 1933, when he gave the bank a receipt therefor. Copies of only three of the agreements had been found at the time of the last examination. The examiner took exception to the bank's action in surrendering the trust property because the agreements of which copies had been found contained no provision for revocation.

"In their opinion, Dorsey & Baldrige refer to the following provision of section 11(k) of the Federal Reserve Act:

> 'Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.'

"They point out that since prior to 1931 trust companies, the only State corporations authorized to exercise fiduciary powers in Nebraska, have been required by the State law to deposit cash or securities in specified amounts with the State authorities. Stating that they have been advised that no such deposit has ever been made by The First National Bank of Wayne, they reach the following conclusion:

> 'Our conclusion from the foregoing statutes is that the First National Bank of Wayne was never qualified and had no capacity to act as trustee, for the reason that it did not comply with the state statute requiring a deposit of securities. It therefore never became trustee under the instruments executed by Mr.

"'Bressler and in giving back these securities to him, the bank simply put an end to a situation in which it was assuming to act without power and ultra vires.'

"However, it is understood that, with reference to the cash or securities which trust companies were required to deposit with the State authorities, the Nebraska State statutes in effect in 1931 provided as follows:

'The fund deposited as provided in section 9, shall be primarily liable for obligations of such company as guardian, curator, executor, administrator, assignee, receiver, trustee, either by appointment of court or under will, and for depository of money in court and shall not be liable for any other debt or obligation of the corporation until all trust liabilities aforesaid have been discharged.'

"Since the deposit required of trust companies was not for the protection of trusts of the kind here in question, the Board is of the opinion that The First National Bank of Wayne could act as trustee of such trusts without being required to make a similar deposit. Disagreeing on this ground with the conclusion reached by Dorsey & Baldrige, it is unnecessary to consider questions as to the effect of the failure of a national bank to make a deposit with the State authorities when it is required to do so and as to whether national banks in Nebraska need ever make such deposits since one purpose of the deposits required of trust companies is to secure obligations incurred as 'depository of money in court', apparently a non-fiduciary function.

"In an effort to obtain further information concerning the trusts in question, we have reviewed the reports of examinations of the bank covering the period from April 1931 through October 1933. The information contained therein differs in some details from that now reported. The reports as of August 31, 1931, January 22, 1932, and July 29, 1932, show that the bank was administering four trusts with an aggregate principal amount of $174,000 instead of $146,000, the amount now reported for the four Bressler trusts. The reports as of February 24, 1933, and August 15, 1933, show that the bank was administering only three trusts, which indicates that the attempted termination of one of the Bressler trusts occurred earlier than is now reported. However, the reports contain nothing else of interest with

"respect to the fiduciary activities of the bank, except that in reply to a question concerning deposits of securities with the State authorities, the examiners stated: 'Not a requirement for voluntary trusts'.

"Such information as we have raises questions as to whether the trusts may not have been in part, at least, in violation of the rule against perpetuities and, also, as to what protection the bank has by virtue of estoppel or laches. However, it is assumed that the bank's counsel have explored these aspects of the matter.

"Since it has not been established to the Board's satisfaction that the bank has been relieved in accordance with State law of all of its fiduciary duties, the Board cannot now issue a certificate certifying that the bank is no longer authorized to exercise fiduciary powers.

"In the circumstances, this matter is being referred to you and it will be appreciated if you will advise the bank of the Board's views and make such suggestions as to further action by the bank as you may deem appropriate. Also, it is suggested that you discuss the matter with the Chief National Bank Examiner for your District in order that he and the examiner examining the bank will be apprised of its present status. We are not advising the bank that the matter is being referred to you."

Approved unanimously.

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

"Reg. W-80. An inquiry has been received regarding the applicability of Regulation W to a special type of lease contract covering an automobile. The lessor is a dealer in automobiles and the lessee is a contractor who has a cost-plus-a-fixed-fee contract with the War Department. The lease calls for monthly payments of 10% of the purchase price of the automobile and provides that when 10 payments have been made title to the automobile will vest in the Government with the option in the Government at any time to pay the unpaid balance and take title to the automobile. The contract further provides that the automobile may be transferred to another construction project and in that event the lessor must enter into a

"new lease agreement with the holder of the construction contract at the new location, payments made under the first lease being credited to the second lease. The contract does not provide any means whereby the lessee can acquire title to the automobile.

"The Board is of the opinion that in such circumstances the lease is not subject to the requirements of the Regulation."

Approved unanimously.

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

"Reg. W-81. The classification 'radio receiving sets, phonographs, or combinations' does not include coin-operated phonographs."

Approved unanimously.

Letter to Mr. Phelan, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"This will acknowledge your letter of September 17 concerning the application of Regulation W to marine radio equipment. Radio equipment designed for marine use such as direction finders, auto-alarms, radio telegraphs, and radio telephone apparatus is not included in the 'listed articles' of the Supplement."

Approved unanimously.

Letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of September 16, 1941 in which you ask the following question:

'A home owner desires to have installed in his residence a heating plant, including a furnace or oil burner. The cost of the article and installation is more than $1,000 and the

"'cost of the article exceeds 50% of the total cost. The owner applies to a bank for a F.H.A. title one loan for an amount exceeding $1,000 and approximately equal to the entire cost of the improvement, intending to use the proceeds to pay the contractor in full. The bank is willing to make the loan upon a schedule of payments extending over two years. The bank does not require a lien either upon the listed article or upon the house in which it is installed. Is the above transaction prohibited by the Regulation?'

"You are correct in your conclusion that the transaction is not prohibited. As you point out, the loan by the bank is not an extension of installment sale credit, and since the loan is not secured by the listed article it is not an extension of installment loan credit referred to in section 5(a) and since it exceeds $1,000 in principal amount it is not an extension of installment loan credit referred to in 5(b)."

Approved unanimously.

Telegram to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Your wire September 19. First question answered by (Regulation) W-77. Second question depends on whether John Doe 'knows or has reason to know' under section 8(f). This depends on the facts of particular case and general legal principles. Third question answered in negative under section 3(a)(2)(B) because finance company knew that credit exceeded credit value of automobile. Fourth question is under consideration."

Approved unanimously.

Telegram to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Your wire. Assuming transaction is not first renewal or revision of pre-September contract and assuming transaction occurs on or after November 1, Board agrees

"that it would be evasion for Registrant to accept cash payment of entire balance due under existing instalment loan and simultaneously make new advance for a period of 18 months."

Approved unanimously.

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

"Receipt is acknowledged of your letter of September 18, 1941 asking the following question:

'A customer buys a listed article and makes the required down payment scheduling the deferred balance over a period of 18 months. After a few months the customer becomes delinquent in paying installments. The dealer, who has sold the contract to a financing institution with recourse, decides it is to his advantage to advance one or more installments in order to bring the customer payments up-to-date and thereby avoid repossessing the article. Is it a violation of the regulation for the financing institution to accept such payments advanced by the dealer when an arrangement of this type may provide, through an oral understanding between the dealer and the customer, that the payments advanced will be repaid by the customer after the normal maturity of the contract? If this character of transaction is held to be a violation of the regulation, is the financing institution also liable under the regulation even though many dealers advance payments for customers without the knowledge of the financing institutions?'

"Section 8(a)(2) of the Regulation provides:

'That nothing in this regulation shall be construed to prevent any Registrant from making any renewal or revision, or taking any action that it shall deem necessary in good faith * * * for the Registrant's own protection in connection with any obligation which is in default and is the subject of bona fide collection effort by the Registrant.'

"No general rule can be stated as to what constitutes a bona fide collection effort, beyond stating that court action is not essential. Assuming that the dealer adopts the method described in your letter believing that it is the best method by which to secure collection of a delinquent obligation, the transaction would not be a violation of the Regulation."

Approved unanimously.

Letter for the signature of Mr. Ransom to Mr. Sheppard, House of Representatives, Washington, D. C., reading as follows:

"In the absence of Chairman Eccles, your letter of September 13 addressed to the Board of Governors of the Federal Reserve System has come to my attention. Careful consideration has been given to the information you request for your assistance in presenting to the Committee on Rules a resolution that you have introduced for the appointment of a committee to make some inquiry into the character and extent of the small loan business. You state it will be helpful if we will request from persons listed in your letter such data, also listed, as may not be in our files.

"The Board's Regulation W on the subject of consumer credit was adopted on August 21 pursuant to the President's Executive Order dated August 9, 1941. A pamphlet which contains a copy of the regulation and the Executive Order, together with a foreword stating its purposes, is enclosed. As you will see, the regulation is directed primarily toward prescribing the length of time within which installment credit shall be repaid and the amount of down payments to be required. It is not directed toward the control of matters mentioned in your letter such as operating costs, management or supervisory services, or rates of interest charged by small loan companies. Interest charges, as you know, are subject to State laws. Naturally, therefore, the Board has not had occasion to deal with these matters and the brief period which has elapsed has necessarily been devoted to pressing questions involving interpretation and administration of the regulation as promulgated. In the circumstances, the Board has not found the need for accumulating data of the kind enumerated in your letter and is not prepared to furnish it to you.

"If your resolution is adopted by Congress and a committee is appointed to make inquiry into the character and

"extent of the small loan business, such information as you seek where entirely outside of Regulation W can be requested by the committee from the companies and individuals mentioned in your letter. We shall be glad to give such committee upon its request any information we have that will be helpful to the committee or of interest to you as the author of the resolution.

"We are extremely sorry that we are unable to give you at this time the information you want and hope that this letter will explain why such information is not now in our possession as well as the fact that we do not contemplate at this time the necessity for acquiring much of it."

Approved unanimously.

Memorandum dated September 22, 1941, from Mr. Smead, Chief of the Division of Bank Operations, recommending that F. R. 107, Report of Earnings and Dividends of State Bank Members, be amended so that the reports rendered covering the last six months of each year will show, in addition to the semi-annual figures, corresponding figures for the calendar year as a whole. The memorandum stated that it was understood that a similar change was being made by the Comptroller of the Currency in the forms to be submitted by national banks.

Approved unanimously.

Letter to the Comptroller of the Currency reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order requested June 14, 1941, for the printing of Federal reserve notes of the 1934 Series in the amount and denomination stated for the Federal Reserve Bank of New York:

Denomination	Number of sheets	Amount
$5	400,000	$24,000,000"

Approved unanimously.

Memoranda dated September 22 and 24, 1941, from Mr. Wingfield, Assistant General Counsel, and Mr. Wyatt, General Counsel, respectively, recommending that there be published in the October issue of the Federal Reserve Bulletin statements in the form attached to the memoranda with respect to the following subjects:

Revised Supplement to Regulation D increasing reserve requirements;

Amendment No. 1 to Regulation W;

Interpretations of Regulation W which have been or may be issued before the galley proof of the October Bulletin is returned to the printer; and

General Licenses and Public Circulars Issued by the Secretary of the Treasury.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Vice Chairman.