

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 29, 1941, at 10:00 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Parry, Chief, Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Bradley, Assistant Chief, Division of Security Loans
Mr. Thomas, Assistant Director, Division of Research and Statistics
Mr. Gravens, Consultant in the Division of Security Loans
Mr. Solomon, Assistant Counsel
Mr. Bonnar Brown, Special Assistant, Division of Security Loans
Mr. Dembitz, Special Assistant in the Division of Security Loans
Mr. Robinson, Associate Economist, Division of Research and Statistics

Messrs. Nugent and Hubachek from the Office of Price Administration

There was presented a list prepared by Mr. Parry under date of September 29, 1941, of eleven of the more pressing technical questions confronting the Board at the present time in connection with Regulation W, Consumer Credit, and Mr. Ransom stated that this meeting had been called for the purpose of discussing these problems

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with a view to the preparation as promptly as possible of specific recommendations for submission to the Board.

The problems were discussed in considerable detail and, in response to requests by Mr. Ransom during the course of the discussion, Messrs. Nugent and Hubachek made such comments and expressed such opinions as they had to offer at the time with respect to each of the questions.

At 1:00 p.m. the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session, and the discussion continued until the first ten questions listed in Mr. Parry's memorandum had been considered.

At the conclusion of the discussion Mr. Ransom stated that he was leaving tomorrow night and would be away from Washington during the month of October, and that he would like to suggest, in connection with the further consideration of the items discussed at this meeting, that before the members of the staff crystallized their own conclusions or submitted recommendations to the Board relating to the further amendment of Regulation W, or with respect to tightening the provisions of the Regulation, they confer with the representatives of the Consultative Committee created by Executive Order 8843, and particularly with Messrs. Nugent and Hubachek, with whom the Board's staff should work in close cooperation. He also stated that the Secretary of the Treasury and the Federal Loan Administrator had a responsibility in connection with, and a real

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interest in, the extent to which the terms of Regulation W were tightened and that when the time came for action in that direction, they or their designated alternates, as well as the representatives of the Office of Price Administration, should be freely consulted.

Mr. Szymczak suggested that Messrs. Cravens, Dreibelbis, and Nugent be requested to serve as a committee to draft, in the light of the comments made during the discussion at this meeting, specific recommendations for consideration by the Board as to action to be taken on the first ten items contained in Mr. Parry's memorandum, it being understood that the committee would work in close cooperation with Mr. Parry.

Mr. Szymczak's suggestion
was approved unanimously.

At this point Messrs. Wyatt, Parry, Dreibelbis, Bradley, Thomas, Cravens, Solomon, Bonnar Brown, Dembitz, Robinson, Nugent, and Hubachek left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

Memorandum dated September 25, 1941, from Mr. Nelson, Assistant Secretary, recommending that the following increases in salaries of employees in the Secretary's Office be approved, effective as of October 1, 1941:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
M. DuBose MacDowell	Inventory Clerk	\$1,620	\$1,800
D. Jeanne Krieger	Supervisor, Stenographic Section	2,300	2,400
Mildred Smith	Stenographer	1,980	2,100

Approved unanimously.

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Letter to Miss Carol S. Piper, formerly Secretary to Mr. Davis, reading as follows:

"This is to acknowledge receipt of your letters of September 20 submitting your resignation, effective at the close of September 22, 1941, as you have accepted a position in the Office of Price Administration. Your resignation is accepted in accordance with your request.

"We wish you the best of success in your new work as we have enjoyed our relations with you in this organization very much."

Approved unanimously.

Letter to Mr. McGuire, Assistant to the Attorney General, reading as follows:

"At the request of Chairman Eccles I wish to acknowledge receipt of your letter of September 17, 1941, regarding Bruce Waybur, whose name is reported as appearing on the active indices of the American Peace Mobilization, and Raymond J. Collier, whose name is reported as appearing on the active indices of the American Peace Mobilization and the Washington Committee for Democratic Action.

"Mr. Waybur has been employed by the Board since October 2, 1939 and now holds the position of Junior Economist in the Division of Research and Statistics, where he is engaged in the analyses of agricultural conditions. He was born in New Orleans, Louisiana, in 1914 and spent most of his early life in California. He is a graduate of the University of California and in addition attended Balliol College at Oxford University from 1937 to 1939 on a Rhodes Scholarship. Our records indicate that his parents and grandparents were born in the United States; that his paternal grandfather was Professor of Music at Mills College and the University of California, and that his maternal grandfather was for many years editor, publisher and part owner of the San Francisco Bulletin. His father is an independent farmer in California.

"Mr. Waybur has advised us that he attended a few meetings of the American Peace Mobilization and that while he made some small contributions when collections were taken up at the meetings, he was not technically a member.

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"He said that while he understood that the group was opposed to the Administration's war policy and did not approve conscription, he had not considered it as a subversive organization. We have every confidence in Mr. Waybur's loyalty, but feel that the question of further investigation may be left to your discretion.

"Mr. Raymond Collier has been employed by the Board since 1924 and now holds the position of Junior Economist in our Division of Research and Statistics, where he is engaged in the analyses of bank statements, interest and short-term money rates. He was born in Virginia, and was graduated from Central High School in Washington in 1924.

"Mr. Collier has advised us that he has no knowledge of the organizations which are reported to have his name on their active indices; that he has neither attended any meetings nor made any contributions whatsoever to their cause, and that he is unable to understand why they would have his name on their indices. We have every confidence in Mr. Collier's loyalty and feel that the matter requires no further attention or inquiry."

Approved unanimously.

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

"In accordance with the request contained in your letter of September 24, 1941, the Board approves the appointment of R. A. Sanders as an examiner for the Federal Reserve Bank of Philadelphia. Please advise us of the effective date."

Approved unanimously.

Telegram dated September 27, 1941, to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-83. Section 3(a)(2)(B) permits purchase or discount of 24-month note if note was signed after September 1 pursuant to pre-September commitment.

"Similarly, where contractor and home owner have made pre-September contract for repairs to be financed by a bank, bank may finance the repairs on terms provided in contract even though request for financing is not presented to bank until after September 1."

Approved unanimously.

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

"Reg. W-84. The Board has received several questions regarding the application of sections 4(f) and 5(c)(1) of Regulation W, which become effective October 1, 1941, and relate to the 'statement of transaction' required in connection with extension of instalment sale credit or instalment loan credit. The answers are given below:

"1. It is not necessary that all of the information required by section 4(f) or 5(c)(1) be included on a single sheet of paper, but if parts of the information appear on two or more sheets it is necessary that these sheets be attached together, and that copies of all of them be given to the obligor together. The statement referred to in these sections, and the copy required to be given the customer, need not be identical in form.

"2. It is not necessary that the particular terminology used in the regulation ('bona fide cash purchase price', 'deferred balance', and 'time balance') be used in the statement of transaction, as long as the statement contains the required information. When the contract is in the form of a lease agreement, such terminology as is applicable to a lease, giving the corresponding information, may be used.

"3. The bona fide cash purchase price of a particular article and accessories, including relevant taxes, may be shown as a total without being itemized into various parts. Although section 4(f)(2) requires itemization of (1) the article, (2) the accessories and (3) the services referred to in the section, the items themselves may be itemized without stating the portion of the total purchase price that relates to each. Accessories which are standard equipment for the article need not be individually itemized, and a group of accessories which are sold as a single group by the manufacturer may be shown in the statement as a unit.

"4. The itemization for a new automobile follows this same rule, and need not show separately the matters referred to in paragraphs 1 through 4 of Part 3(a) of the Supplement. As indicated above, however, the accessories should be indicated, and so should the relevant services.

"5. In the case of an extension of instalment sale credit subject to section 4 of the regulation, item 2 under section 4(f) requires that the statement of transaction

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"show the bona fide cash purchase price of the article--the price at which the seller would sell the article for full cash payment--even though the sale will be made at a 'time price' which includes carrying charges.

"6. The information referred to in each of the seven paragraphs of section 4(f) must be set forth, and it is not sufficient that an item of information may be obtained by mathematical derivation from other information in the statement. However, if the interest or finance charge is not included in the face amount of the obligation but is an additional amount calculated pursuant to an arithmetic formula plainly set forth in the statement, paragraphs 5 and 6 do not require this amount to be shown in dollars and cents or to be included in the statement of the time balance.

"7. In any case in which a State law or local regulation requires that sales taxes be shown separately or requires in any other respect more detail than that required by Regulation W, the regulation does not prohibit such further itemizing."

Approved unanimously.

Letter to Mr. Hult, Assistant Cashier of the Federal Reserve Bank of Boston, reading as follows:

"Your letter of September 13 presents two related inquiries regarding the applicability of Regulation W.

"The first question deals with finance companies and insurance agents engaged in financing insurance premiums. The insured agrees to pay for the premium in instalments, and the finance company pays the insurance company in full out of its own funds when the contract is made. The insurance agents sometimes pay in full at that time, and sometimes become personally liable to the insurance company at that time although they actually pay later.

"You point out that the insured naturally regards the transaction as the purchase of insurance on the instalment plan, and since insurance is not a listed article, the insured would regard the transaction as not covered by the Regulation. On the other hand, 'instalment sale credit' is defined as an extension of instalment sale credit which is made 'by any seller'. The finance company is not the seller, and therefore the credit is instalment loan credit,

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"and is subject to the Regulation unless the amount exceeds \$1,000. The same is apparently true with respect to premiums financed by the insurance agent, although the nature of the contractual relationship between the agent and the insurance company might affect the result.

"The memorandum from Federal Finance Corporation which you enclose points out that the contracts usually run for less than a year, but the Regulation is causing hardship because the monthly instalments aggregate less than \$5 per month.

"Objections to the \$5 minimum have been received from other sources. The matter is receiving consideration, and you will, of course, be advised promptly of any action taken.

"The other question relates to rendering companies, wholesale drug companies, and others, who finance the purchase of fixtures for individuals wishing to go into business. In one typical case the renderer had a pre-existing arrangement with the fixture company whereby the renderer agreed to purchase from the fixture company the instalment sales contracts arising out of the sale of the fixtures. If we understand your letter correctly, the purchaser of the fixtures delivers waste materials to the rendered, and pays directly to the fixture company the difference between the value of the waste materials and the amount of the instalments due under this sale contract. The fixtures are not listed articles.

"In this case the credit is extended by the seller of the fixtures, even though, as you say, it appears that the seller would not have been willing to extend the credit except for the agreement by the renderer to purchase the instalment obligations. Since the instalment sale credit does not involve a listed article, the Regulation is not applicable.

"One of the enclosures with your letter was a copy of a letter from Jeremiah S. Jeremiah regarding a client of his who appears to be engaged in financing the purchase of clothes. He gives to prospective purchasers his order on some store. The purchaser goes to the store, presents the order and receives the article. The store later sends the order to Mr. Jeremiah's client, who pays the store the amount of the order less a 10 per cent discount. The store is paid in one payment, but the purchaser apparently pays Mr. Jeremiah's client in instalments. This case would appear to involve an extension of instalment loan credit, for reasons similar to those discussed above in connection with the finance company which finances insurance premiums.

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"It is hoped that the above discussions will assist you in answering the inquiries which you are receiving, and we shall be glad if we can be of assistance in connection with any further inquiries."

Approved unanimously.

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

"Reference is made to your letter of September 9, 1941 with which you enclosed a copy of a letter from the American National Bank and Trust Company of Chicago regarding Groups D and E under Regulation W.

"As indicated in Interpretation W-51, the classification 'household furnaces', etc., does not include piping, ducts, radiators, convectors, or registers installed in connection with such equipment, although these items may fall within the classification of materials and services referred to in Group E. In other respects, the Board agrees with your view that the installation charge of a furnace is part of the bona fide cash purchase price when installation is part of the sale, but that if the furnace is sold by one Registrant and installed by another Registrant as a separate transaction, the installation charge is not part of the purchase price of the furnace and hence does not require a down payment.

"It is to be noted, of course, that such installation charges may fall within Group E, and hence be subject to the 18 months' limitation on maturity even though they do not require a down payment."

Approved unanimously.

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

"In order to facilitate public understanding of Regulation W, the Board, as you know, has departed from its usual practice, by considering questions based on hypothetical as well as actual cases. This has consumed a great deal of time because ordinarily it has been more difficult to determine the possibilities of a hypothetical question than

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"it has been to provide an answer to a question presenting the facts of a single case. Moreover, the time taken to answer such inquiries has diverted the attention of a very small staff from the pressing need of considering important amendments which practical experience has shown necessary.

"The Board, however, does not wish to limit the amount of advice and assistance that it can render to the Federal Reserve Banks and their Branches in meeting the problems of administration with which they are confronted because it is fully aware of the fact that they must bear the brunt of direct contact with the trade and the public and because the manner in which they deal with the persons who may be affected by the regulation determines the success of its administration. At the same time, much of the preliminary work of interpretation and explanation of the regulation has been done and it is believed that the time has come when the Board may properly ask for the cooperation of your officers in discouraging the submission of questions which do not present the facts of actual cases. Your assistance in this direction will be greatly appreciated."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Frank J. Anderson
Vice Chairman.