

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 17, 1941, at 11:30 a.m.

PRESENT: Mr. Szymczak  
Mr. McKee  
Mr. Draper

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

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

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Sanford and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 14, by the Federal Reserve Banks of New York, Atlanta, Chicago, and San Francisco on October 16, 1941, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Reference is made to your letter of October 11, 1941, which relates further to a request of The Western Security Bank, Sandusky, Ohio, for approval of a transaction involving an investment in the bank premises which

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"it occupies.

"It is noted from your letter that the bank has dissolved the Washington Park Building Company which was organized to acquire the bank building and in which the bank made an investment of \$50,000 in April of 1941, representing the entire capital stock of the holding company, and that the bank purchased the building for \$75,000 of which amount \$25,000 was charged to its profit and loss account.

"In view of your recommendation and available information, the Board will interpose no objection to the transaction under the condition of membership numbered 8."

Approved unanimously.

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

"Reg. W-100. The Board has been asked whether the following procedure complies with section 4(f) of Regulation W.

"The seller gives no statement of the transaction to the purchaser but authorizes the finance company which discounts the obligation to furnish the statement to the purchaser in its normal course of business, with the result that the purchaser receives the statement approximately two weeks after the obligation is discounted by the finance company.

"The Board replied that this procedure does not comply with the requirements of section 4(f)."

Approved unanimously.

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

"Reg. W-101. Regulation W does not prohibit the rescission of an instalment sale contract by agreement of the parties at any time if the seller refunds all amounts received and the purchaser returns the article; as, for example, where the article is found to be defective and the seller is unable to replace it. However, if the purchaser returns the article several months after the date of sale on the ground that it is defective

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"and if the seller does not replace the article but instead agrees with the purchaser to rescind the sale and sell the purchaser another article of the same kind or a similar article of a higher price, these facts may indicate that the rescission was merely a formality used for the purpose of evading the Regulation and that the transaction should have been treated as a trade-in as described in W-71."

Approved unanimously.

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

"This will acknowledge receipt of your letter of October 6, 1941, raising certain questions with reference to the provisions of Group E of the Supplement to Regulation W. These questions are already under study and it is hoped that rulings will be available before long.

"Present indications are that the rulings will be along the lines which you have suggested."

Approved unanimously.

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

"The second and third questions contained in your letter of October 6, together with the answers furnished to you by your counsel, are as follows:

'(2) A loan of \$1200 is made after September 1, 1941, payable in instalments and maturing within two years from its date but not secured by any listed article. When the principal balance has been reduced to \$300, and after November 1, 1941, the borrower, because of a change in circumstances and not pursuant to any previous arrangement or agreement, desires to obtain an extension of the final maturity of the loan to which the lender agrees. What is the maximum maturity permitted by the Regulation? May any extension of final maturity be granted without a certificate of necessity, in view of section 8(a) assuming sections 8(a)(1) and 8(a)(2) are inapplicable?



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"Counsel have advised that in their opinion: (1) The original loan payable in instalments is not an extension of instalment loan credit since it exceeds \$1,000 in amount; (2) the extension of the final maturity should be regarded as the creation of an extension of instalment loan credit, and should be limited to eighteen months from the date on which the maturity is extended; and (3) no certificate of necessity need be obtained, since the credit revised was not, when made, an extension of instalment loan credit.

'(3) A loan of \$700 is made after September 1, 1941, payable in a single payment ninety days from its date. At or before maturity the borrower desires, because of changed circumstances and not pursuant to any previous arrangement or agreement, to have the loan made payable in instalments and the final maturity extended. To this the lender agrees. What is the maximum maturity permitted by the Regulation? Does section 8(a) require a certificate of necessity before any extension may be granted, assuming sections 8(a)(1) and 8(a)(2) are inapplicable?

'Counsel have advised that in their opinion: (1) An extension of instalment loan credit is created at the time of the revision; (2) the loan as revised must be repaid within eighteen months from the date of revision; and (3) no certificate of necessity is required since the loan as originally made was not an extension of instalment loan credit.'"

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 20, 1941, in which you ask for an interpretation of Regulation W on the following state of facts:

'A customer borrows \$1,200 from a bank, payable in installments, not secured by any listed article, so that the extension of credit is not subject to the provisions of section 5. Having reduced the amount due upon this extension of credit to \$900, the customer wishes additional credit of \$300, payable in installments beginning after the last installment of

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"the current loan is due, or wishes to borrow \$1,200, payable in installments not conforming to section 5, and use the proceeds to pay the balance due upon the first installment loan, which was originally for more than \$1,000. Is this permissible? If viewed as an additional advance of \$300, it is not permissible, but if viewed as a loan of \$1,200, the number and maturity of installments are not controlled by the Regulation, and since the first loan was not an extension of installment loan credit within the meaning of section 2(e), there seems nothing to prevent the proceeds of the second loan from being used to retire or extinguish the first.'

"The original instalment loan of \$1,200 was not an extension of instalment loan credit, and therefore section 8(b) of the Regulation, which deals with the consolidation of an extension of instalment loan credit with another extension of instalment loan credit, is not applicable; and the Board believes that if the customer later borrows \$1,200, using a part of the proceeds to pay the balance due on the first instalment loan, this new loan is not instalment loan credit subject to the Regulation.

"In this connection you may be interested in a letter which the Board sent under date of October 14 to Mr. R. H. Stout, President of the Morris Plan Bankers Association, a copy of which is enclosed."

Approved unanimously.

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

"This is in reference to your letter of September 17 enclosing letters from the Stoker Manufacturers Association, the American National Bank and Trust Company, and the Halsted Exchange National Bank in regard to Regulation W.

"The Stoker Manufacturers Association, as you know, has been in direct touch with members of the staff of the Board. Enclosed is a copy of a letter dated October 13, 1941, to the association which indicates the application

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"of Ruling W-51 in the case of stokers manufactured by members of the association.

"The letter from the American National Bank and Trust Company raises some of the same points which were brought up by the Stoker Manufacturers Association and you will be able to make reply to the bank by reference to the enclosed letter to the Stoker Manufacturers Association. In addition, it might be pointed out to the bank that the Board has not adopted the principle of determining inclusion of any article in a classification in the Supplement on the basis of the actual use of the article except in the case of Group E. This decision was made because of the many difficulties for the dealer, and the sales finance company, or for the enforcing agency if each article had to be traced to its ultimate use. The principle of making distinctions based on the design of the article seemed to be the most practical method.

"The letter of the Halsted Exchange National Bank raises a question with respect to stokers larger than those covered by Ruling W-51. The question is whether, if the stoker is not included in Group D-1 because it has a rating larger than 240,000 B.t.u. net output, it is still subject to the regulation under Group E. It is to be noted that the Group E description is as follows: 'Materials and Services (other than materials listed in Group C or D)'. This is to be read 'Materials and Services (other than materials of the kinds listed in Group C or D)'. Consequently if the stoker does not fit into Group D-1 it would not be covered by Group E."

Approved unanimously.

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

"This will acknowledge receipt of your letter of October 7 enclosing a copy of a letter from the Hammond Instrument Company, Chicago, Illinois, and a copy of your letter of October 6 in reply thereto.

"It is true that the ecclesiastical models of electric organs are frequently sold to customers other than religious institutions and that the sales of ecclesiastical models are larger than the sales of residential models. However, in view of the fact that the total business of the electric organ industry is so small, the fact that



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"the customers other than religious institutions include not only private persons but commercial establishments of various types, and the fact that it was desired to avoid placing any restrictions on religious institutions or commercial establishments, it is believed that Ruling W-18 represents a reasonable basis for distinction.

"It is, of course, necessary that rules of this kind be surveyed from time to time so that they will not be used as a means of avoiding the spirit of the regulation. Indications of such avoidance might be changes in construction or in sales methods which would foster the more wide-spread purchase of ecclesiastical models for residential use.

"If further information on this subject comes to your attention, the Board would appreciate having the matter brought to its notice again."

Approved unanimously.

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

"This will acknowledge receipt of your letter of October 7, 1941, referring to an inquiry as to items included in Group E of the Supplement to Regulation W. A similar question is already under study and it is hoped that a ruling can be made shortly.

"For your information, indications are that at least some of the electric power plants will be included in Group E although it will probably be necessary to make some distinctions based on the major purpose for which the energy is generated."

Approved unanimously.

Letter to Mr. Schaefer, Manager of A. G. Schaefer, Olympia, Washington, reading as follows:

"Your letter of October 2, addressed to Dr. Carl E. Parry, in which you urge that the requirements on installment sales of automobiles be liberalized for the Pacific Coast, owing to the higher freight charges to that section of the country, has been received.

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"The point about the higher freight charges was made a number of times during the preparation of the initial regulation dealing with consumer credit and was carefully considered at that time. It did not seem, however, that the existence of a higher price for an article in the particular area (whether caused by higher freight rates or other factors) justified special provisions in the regulation, particularly in view of the implications of such a procedure for the regulation as a whole.

"While this decision may be reviewed by the Board at a later date, it does not appear likely at the present time that it will be reversed."

Approved unanimously.

Letter to Mr. Sproul, Chairman of the Presidents' Conference  
Committee on Defense Savings Securities, reading as follows:

"The Board is in general agreement with the recommendations of the Committee on Defense Savings Securities made to and approved by the Presidents Conference on September 27-28, 1941, which are set forth in your letter of October 10, 1941.

"Active consideration is being given to the recommendation with respect to combining, in some degree, public relations work on Regulation W with the defense savings bond program, and with regard to the preparation of an article relating to this subject for publication in the Federal Reserve Bulletin which might also be published in the Monthly Reviews of the Federal Reserve Banks. As soon as a draft of such an article has been prepared which would be acceptable here, a copy will be forwarded to you in order that we might have the benefit of any comments or suggestions which you may care to offer. Further effort will also be made looking toward fuller utilization of the Bulletin for the presentation of information concerning the Defense Savings Program.

"Your letter recognizes that the Board has already anticipated 'at least in part' the recommendation that its offices 'be used as a clearing house of information concerning System participation in the defense savings bond program'. Actually we have heretofore and are now doing our utmost along this line. It has been our experience, however, that frequently information appears in the press



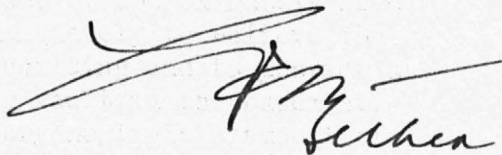
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"before we have been able to obtain it from the Defense Savings Staff. Moreover, it appears that in many cases information is furnished to the State organizations of the Defense Savings Staff before it is received by us. These, of course, are matters over which we have no control, although we are continuing our efforts to bring about closer cooperation. We should nevertheless be glad to have the benefit of any specific suggestions you may have to offer as to how we can improve the service we are now rendering without running counter to the Treasury's existing policies in conducting the defense savings program."

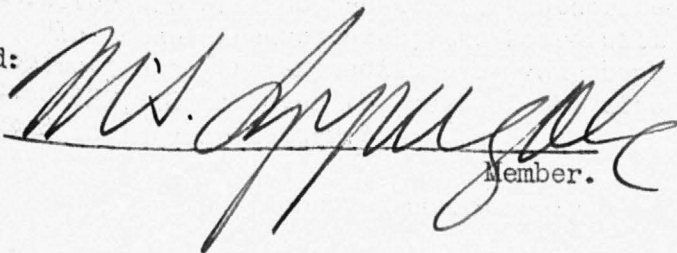
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Member.