

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 22, 1941, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of  
Bank Operations  
Mr. Parry, Chief of the Division of  
Security Loans  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the  
Division of Examinations  
Mr. Brown, Special Assistant 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. Roland Robinson, Associate Economist  
in the Division of Research and Statistics

Mr. Szymczak stated that a draft of amendment 2 to Regulation W, which was prepared following the action taken at the meeting of the Board on October 9, 1941, was sent on October 15, 1941, to the Federal Reserve Banks, the "trade", interested Government agencies, and Mr. Brown, President of the Federal Advisory Council; that the suggestions received from them had been given careful consideration; and that a revised draft of amendment was ready for consideration by the Board at this time. He also said that, although the amendment in its present

10/22/41

-2-

form probably would cause some dislocation in trade practices, some shifts of business from one type of registrant to another, and some reaction against what might be regarded as unequal treatment of certain classes of registrants, it was felt that the amendment would meet these objections to the fullest extent possible at this time and that it would enable the Board, at the proper time, to move in the direction of tightening the restrictions in the regulation.

The consideration of the amendment was then undertaken, paragraph by paragraph, and there was a discussion, particularly of the question whether the amendment to Section 5(a) of the regulation with respect to cash loans for the purpose of purchasing a listed article should limit the application of the section to such loans only in the principal amount of \$1,000 or less, in a larger amount, or to all such loans regardless of amount, and it was agreed that this question should be decided after the other changes proposed by the amendment had been considered.

At 11:25 a.m. the meeting recessed to enable Chairman Eccles to keep an appointment at the Treasury and reconvened at 2:40 p.m. with the same attendance as at the morning session except that Mr. Paulger was not present and Mr. Hammond, Chief of the Correspondence and Publications Section of the Secretary's Office, was in attendance.

The consideration of amendment 2 to Regulation W was resumed, and the discussion centered largely around the suggested amendment to Section 8(b) of the regulation relating to additions to outstanding

10/22/41

-3-

credit held by a registrant. Mr. Parry stated that there was no disagreement on the part of the staff in connection with this change except with respect to the question of whether the borrower should be required, in addition to making payments on a consolidated loan as large as were required on the obligations being consolidated, to increase the payments to whatever extent might be necessary to repay the consolidated obligation in 15 months, 18 months, or 15 months when the additional extension of credit was wholly or partly for the purpose of purchasing listed articles and 18 months in any other case.

The three alternative limitations were discussed in the light of their possible effects, the desirability of having a uniform limitation of 18 months throughout the regulation, and the comments received from the Reserve Banks, interested Government agencies, and the "trade", and it was agreed that a decision on the matter should be deferred until all of the changes proposed by amendment 2 had been considered.

At the conclusion of the discussion of the remaining changes proposed by the amendment, Mr. Szymczak stated that the further suggestion had been made that subsection (h) of Section 6, which section relates to exemptions, be amended to permit an automobile salesman to purchase a used, as well as a new, automobile to be used principally as a demonstrator. There was unanimous agreement that this change should not be made at this time.

Mr. Parry referred again to the question discussed at the meeting on October 9, 1941, relating to the waiver of small down payments and suggested that amendment 2 include a change in the regulation to

10/22/41

-4-

provide that whenever the required down payment was \$2.00 or less the registrant could disregard the requirement, the reasons being (1) that it would relieve retailers and their customers, particularly in the furniture and mail-order fields, of a requirement which was a nuisance to both the retailer and the customers out of all proportion to its value in the regulation, (2) that unless the change were adopted by the Board promptly it could not be adopted later this year without material disarrangement of the business of the mail-order houses and inconvenience to their customers, and (3) that the change would enhance the public acceptance of the regulation. Mr. Szymczak stated that if this change were adopted it would be necessary also to include some provision to restrict solicitation or advertising on the basis that no down payment would be required. These suggestions were discussed but no decision was reached.

Mr. McKee inquired whether any review had been made of the list of articles contained in the supplement, and Mr. Parry stated that while there had been some consideration of changes no comprehensive review of the list had been made, but that that would be the first matter for consideration after the adoption of Amendment No. 2.

There followed a discussion of the procedure to be followed in printing and distributing the amendment, and Mr. Wyatt read a draft of a telegram to the Federal Reserve Banks which contemplated that the amendment would be released to the press on October 27, and that the amendment would be printed and distributed by the Federal Reserve Banks

10/22/41

-5-

in the same manner as amendment 1 had been handled. There was agreement that substantially the procedure outlined in the draft of telegram should be followed.

At the conclusion of the discussion, it was also agreed that another meeting of the Board should be held tomorrow at 10:30 a.m. for further consideration of the three matters on which decisions had not been reached at this meeting.

At this point Messrs. Thurston, Wyatt, Smead, Parry, Dreibelbis, Leonard, Brown, Dembitz, Solomon, Chase, Robinson, and Hammond 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 October 21, 1941, were approved unanimously.

Memorandum dated October 18, 1941, from Mr. Nelson, Assistant Secretary, recommending that Jefferson J. Larson be appointed, on a temporary basis for an indefinite period, as an elevator operator in the Building Operation and Maintenance Section of the Secretary's Office, with salary at the rate of \$1,200 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.

Memorandum dated October 17, 1941, from Mr. Nelson, Assistant Secretary, recommending that Herman L. Tobler be appointed as a porter

10/22/41

-6-

in the Building Operation and Maintenance Section of the Secretary's Office, with salary at the rate of \$1,080 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.

Memorandum dated October 18, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, upon the termination of her temporary appointment on October 31, 1941, Miss A. June Anderson be appointed on a permanent basis as a clerk-stenographer in that Division, without change in her present salary at the rate of \$1,440 per annum.

Approved unanimously.

Memorandum dated October 17, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the Board interpose no objection to the release of Robert B. Martin, a clerk temporarily employed in that Division, for the purpose of accepting a position with the Office of Production Management.

Approved unanimously.

Letter to the board of directors of the "Carroll County Bank", Hillsville, Virginia, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, 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 Richmond:

10/22/41

-7-

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$3,461.13, as shown in report of examination of such bank as of August 21, 1941, made by an examiner for the Federal Reserve Bank of Richmond."

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Carroll County Bank', Hillsville, Virginia, 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 Commissioner of Banking for the Commonwealth of Virginia for his information.

"It is apparent that the bank still has a number of problems to work out and that, as a result of its collection policy or lack of policy, it has accumulated a substantial volume of stagnant loans, particularly thinly margined real estate loans which have been carried for years with but little, if any, reduction. It is understood,

10/22/41

-8-

"however, that a favorable trend in the condition of the bank has been evidenced in the past few years.

"On the basis of his experience with the bank, the Supervising Examiner for the F.D.I.C. points to the need for giving the bank closer than the usual attention, and the application has been approved with the understanding that the Reserve Bank will give the institution close and careful supervision and further the efforts which have been made to bring about the needed improvements in the condition of the bank and its management policies.

"On page 16-(1) of the report of membership examination your examiner lists several examples of loose procedure in the bank's method of handling cash, items held in safekeeping, and its safe deposit boxes. It is assumed that you will point out the dangers inherent in such practices and endeavor to have better practices adopted."

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

"Reference is made to the report of examination of the Madison County Trust and Deposit Co., Oneida, New York, as of August 9, 1941, and your letter of October 8, 1941, requesting the president of the bank to come in for a discussion of its affairs.

"It is indeed most disappointing to observe that, after the years during which this bank has been under observation because of the unsatisfactory features in the situation, more definite progress has not been made in improving its condition. The impression cannot be escaped in reviewing the history of the bank in recent years that one of, if not the principal, reasons why there has been so little progress made has been the lack of a capable and forceful full-time senior executive officer. It may be also that there is a lack of economic justification for the bank's existence.

"The adequacy of the management of the bank was covered in the Board's letters of June 2, 1938, and April 20, 1939. In the first mentioned letter the Board stated:

'This appears to be an example of cases where steps should be taken to bring about a strengthening of the management before the situation reaches a critical stage, and it is assumed



10/22/41

-9-

"that, in cooperation with the State banking department, you will endeavor to effect a correction of the existing unsatisfactory situation, particularly with respect to the management of the bank.'

"Although steps were taken subsequently designed to strengthen the management, the results were not impressive. The latest move was the selection in the latter part of 1940 of Mr. J. A. Jones as Executive Vice President, following the death of Mr. Page. It is understood that Mr. Jones has been an officer of a small bank in Skaneateles which was taken over by another institution in November 1940. It is questionable whether his background of banking experience for the past 8 years is such as to warrant belief that he is the man needed to bring about the desired improvements in the Oneida bank. You have heretofore expressed your confidence in President Santry, a practicing attorney who is reported to dominate the management and is said to be sincere in his management. However, there appears to be a real question as to Mr. Santry's ability to give the bank the executive guidance needed to place its affairs in shape.

"There seems also to be a grave question whether the bank has or can make for itself a profitable place in the community. Despite two purchases of preferred capital by the Reconstruction Finance Corporation and the cut-back of its investment from \$200,000 to \$80,000 to provide funds for eliminations, the assets are still far from being clean. The current report of examination states that the institution is the smallest of three local banks, that its future prospects are considered uncertain and that under the present asset arrangement earnings are not thought to be sufficient to provide for probable future losses and also for dividends on the preferred stock.

"In view of all the circumstances, it is evident that the time has come for the development of concrete plans whereby the unsatisfactory features of the bank's condition may be corrected within the reasonably near future. It seems imperative that some action of this nature be taken promptly if the institution is to take the fullest advantage of the opportunities offered by the current activity in business conditions. It will be appreciated if you will review this situation and advise the Board at an early date as to what you think can and should be done to place this bank in a satisfactory condition, if indeed that can be done."

Approved unanimously.

10/22/41

-10-

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

"This refers to the application of the 'Bank of Sturgeon Bay', Sturgeon Bay, Wisconsin, for permission to exercise fiduciary powers.

"In view of the information submitted by you, and in accordance with your recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 4, to exercise the fiduciary powers now held by it under the authority heretofore granted to it by the Wisconsin Banking Commission. The Board's approval is given subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

1. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
2. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise the Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board."

Approved unanimously.

10/22/41

-11-

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

"Reg. W-102. A Registrant sells a listed article under a bona fide agreement that the purchase price will be paid in a single payment 60 days after the date of purchase. By reason of a change in circumstances and not in pursuance of any previous agreement or arrangement, at about the time the payment is to be made the purchaser asks that the purchase be changed to an instalment basis. Is it necessary to get a down payment? From what date must the maximum maturity be calculated?"

"Since the sale was made under a bona fide agreement and there were no evasive side agreements between the parties, it is not necessary under the present terms of the regulation to get a down payment, and the maximum maturity is 18 months from the date on which the credit is changed to an instalment basis."

Approved unanimously.

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

"Reg. W-103. The classification 'Home air conditioning systems' includes air cooling units that have a rated capacity of 5 tons or less of refrigeration and that are designed for use with a central air circulating system. The classification does not include circulating fans unless they are incorporated in the unit. The classification of such a unit is not affected by the character of building in which it is to be used."

Approved unanimously.

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

"Reg. W-104. The classification 'plumbing and sanitary fixtures designed for household use' includes water softeners having a rated capacity of 120,000 grains of hardness removal between regenerations."

Approved unanimously.

10/22/41

-12-

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

"Reg. W-105. Section 4(g) of Regulation W provides that where a listed and an unlisted article are sold at the same time, the permissible terms shall be determined by dividing the transaction into two parts, so that the sale of the listed article will comply with Regulation W and the sale of the unlisted article will be on terms which the seller would have granted on that sale if standing alone.

"Some sellers have established their own minimum down payment or minimum periodic payment requirements in connection with instalment sales, but when two or more articles are sold at the same time these requirements apply to the total. The Board has been asked whether section 4(g) requires such a seller to apply his minimum payment requirements to the sale of the unlisted article as though the listed article had not been sold to the customer. The Board replied that the Regulation does not require him to do so, but permits him to give the same terms on the part of the sale represented by the unlisted article which he would have given, in a similar combination sale, in the absence of the Regulation."

Approved unanimously.

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

"Your letter of September 12, 1941 (F.R.B.N.Y. Inquiry No. 5 re Regulation W) contains an inquiry with respect to the applicability of Regulation W to the 'Buy-O-Matic Plan'.

"Under such plan an individual may obtain from a bank which is associated with the Plan its cashier's checks, totaling less than \$1,000, each check being in the amount of \$30 or a multiple thereof and being payable to the order of 'any member of the "Buy-O-Matic Plan"'. The customer gives the bank his unsecured promissory note payable in 6 or 12 equal monthly instalments. The customer may use the checks to purchase listed or unlisted articles from any merchant who is a member of the Plan.

"In some cases the customer makes the arrangements

10/22/41

-13-

"directly with the bank, but in other cases the customer fills out the application and promissory note on the merchant's premises, and also executes a delivery authorization authorizing the bank to deliver the checks direct to the merchant. Except for such delivery authorization, the bank does not in any case have any dealings or contractual arrangements with the merchant. Specifically, in this connection, it is understood that the merchant does not have any arrangement with the bank which authorizes him to bind the bank to make the extension of credit, and he does not become responsible in any way to the bank for the repayment of the credit extended since the bank does not extend the credit unless it is satisfied with the credit standing of the customer.

"The question is whether no down payment is required because the credit is instalment loan credit (W-24), or whether it is instalment sale credit extended by the merchant as agent for the bank (W-16), in which case the instalments paid by the customer to his bank will probably not have been sufficient to constitute the required down payment (W-10).

"You believe that no down payment is required where the customer gets the checks from the bank himself, because he can then spend them with any merchant who is a member, but you are inclined to feel that the principle stated in W-16 may be applicable where the customer's application for Buy-O-Matic checks, his promissory note payable to the bank, and his direction to the bank to deliver the checks to the merchant, are filled out on the merchant's premises and delivered to the merchant for transmittal to the bank, even though the checks need not all be spent with that merchant.

"The Board agrees with your conclusion with respect to the first half of the question, but the Board believes that the principle stated in W-16 does not apply to the situation described in the second half of the question, because of the absence of any arrangements or contractual relations between the merchant or the bank. Accordingly, on the basis of facts described above, the Board is of the opinion that the operation of the Buy-O-Matic Plan does not involve the extension of instalment sale credit by the merchant but merely the extension of instalment loan credit by the bank."

Approved unanimously.

10/22/41

-14-

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

"Receipt is acknowledged of your letter of October 11, 1941 enclosing a copy of a letter to you from The First National Bank of Chicago and a copy of your reply, relating to the effect of W-5 and W-34.

"Your reply appears to have disposed of all the points raised by The First National Bank of Chicago except the practical question referred to in your letter of October 11, namely that in view of the fact that section 3(a) of the Regulation provides that a Registrant may not receive any payment which arises out of an extension of credit which does not conform to the Regulation, financial institutions (a) will not purchase collateral trust notes unless the collateral trustee certifies that all the underlying instalment collateral complies with the Regulation and (b) will not act as trustees under collateral trusts unless the trust instrument requires them to examine the collateral, in which case they will charge fees commensurate with such additional duties. The result which is feared is that financing will be solicited direct, rather than through the usual collateral trust arrangement.

"When W-5 and W-34 were being written, possibilities such as these were considered, but it seemed that the interjection of the requirements of Regulation W would not affect in any substantial way the practical situation previously existing. It seemed that each item of underlying instalment collateral would be subject to a number of possible disabilities, including failure to record in cases where recording was necessary to give a valid lien, breach of warranty by the seller, insolvency of the purchaser, etc., and that the possibility that the instalment sale contract would not comply with Regulation W would merely add another, and probably a slight, additional risk, which the purchaser of the collateral trust note would assume, as a business risk, together with the various other risks which might affect collectibility of the individual contracts.

"It seems possible that with a diminishing supply of consumers' durable goods and an increasing demand, as well as with an increasing familiarity with the requirements of the Regulation on the part of sellers, the risk will become at least as small as any of the other attendant risks and that therefore the consequences feared by The First National

10/22/41

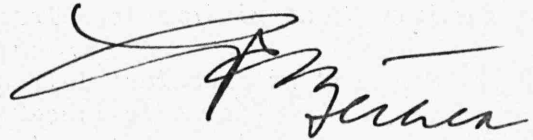
-15-

"Bank will not materialize to any substantial extent. However, the matter has been brought to the attention of members of the Board of Governors and of its staff for consideration in connection with a number of other questions which have arisen in connection with the Regulation.

"You are, of course, correct in the statement made in the fourth paragraph of your letter to Mr. Livingston regarding section 3(a)(2)(B) of the Regulation and Interpretations W-5 and W-34. The time as of which the knowledge of the Registrant is important, and the time when his rights become fixed, are, respectively, when he buys or discounts the obligation, or when the obligation is accepted as collateral."

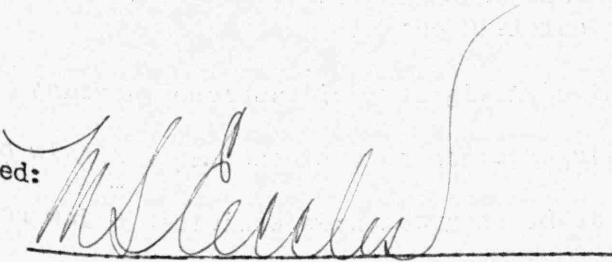
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.