

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 12, 1941, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
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 herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 10, 1941, were approved unanimously.

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

"Referring your November 8 letter, Board approves, effective November 1, 1941, payment of salaries at the rates of \$3,020 per annum to incumbents of position of 'Vault-Custodian'."

Approved unanimously.

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

"Reference is made to your letter of November 1, 1941 regarding the suggestion made by C.I.T. Corporation that interpretation W-100 be altered so that in the case of F.H.A. transactions the statement of the transaction could be supplied to the customer by the finance company

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"that discounts or purchases the paper rather than by the dealer.

"It is recognized that in some cases the suggested procedure might be easier to carry out, or the discounting agency might be more familiar with the requirements of the regulation. However, the dealer necessarily must be the source of the required information, and it would seem to be appropriate for him to give this information directly to the customer rather than pass it along to the finance company for this purpose. The Board feels that, on balance, it is preferable that the same rule should apply to the F.H.A. transactions as to other transactions under the regulation.

"In any event, it is, of course, unnecessary for the statement to be given the customer prior to the completion of the transaction, since, as indicated in W-43, the date of completion is the controlling date in such cases."

Approved unanimously.

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

"This is in response to your letter of November 3, 1941, enclosing a letter addressed to your bank under date of November 1, by Messrs. Safir & Kahn, attorneys, on behalf of their client, James F. Waters, Inc., distributors of the DeSoto Sky-View Taxicabs, requesting that the Board revoke its opinion of September 30, 1941 regarding the applicability of Regulation W to the purchase and resale of taxicabs by the Packard Federal Corporation.

"The essential facts in that case were as follows: Prior to September 1, 1941 the Packard Federal Corporation entered into a contract to purchase 400 taxicabs from a manufacturer for the purpose of resale, and before entering into this contract, the Packard Federal Corporation entered into a contract with a finance company under the terms of which the finance company agreed to purchase from the Packard Federal Corporation the instalment obligations arising out of the resale of the taxicabs by the Packard Federal Corporation. The contract with the finance company stated the terms upon which the corporation would

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"sell the taxicabs and the question presented was whether the corporation could sell these taxicabs on those terms, notwithstanding the provisions of section 4 of the Regulation.

"The answer to this question depended upon whether or not the situation was covered by section 9(d) of the Regulation, which, with certain exceptions not here material, provides that 'nothing in this Regulation shall apply with respect to any valid contract made prior to' September 1, 1941.

"Owing to the pressure of business and the desire to comply as promptly as possible with the numerous requests for interpretations of Regulation W which were being received, the reasoning upon which the Board's conclusion was based was not set forth at length in its letter of September 30. However, stated somewhat more fully, it was as follows:

"Section 9(d) of the Regulation was intended to prevent the Regulation from interfering with the performance of any contract entered into in good faith prior to September 1, 1941, and the Board had issued a number of interpretations construing this section liberally in order to carry out its purposes. One of these, issued September 27, 1941 and designated W-83, held that, where a contractor and a home owner have made a pre-September contract for repairs to be financed by a bank, the bank may finance the repairs on the terms provided in the contract even though the request for financing is not presented to the bank until after September 1.

"In considering the taxicab case it appeared that the taxicab dealer could not carry out the contracts which it had entered into in good faith prior to September 1, 1941 with the manufacturer and the finance company unless it was permitted to resell the taxicabs on the terms stated in its contract with the finance company; and the Board concluded, in accordance with the principles involved in Interpretation W-83, that the case came within the exception provided by section 9(b) of the Regulation, even though the contracts for the resale of the taxicabs were not entered into until after September 1st.

"The Board has carefully reviewed the matter and is of the opinion that the interpretation given in the letter of September 30, 1941 is in accordance with the provisions of the Regulation and should not be revoked.

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"Messrs. Safir & Kahn contend that the Board's ruling has the effect of discriminating against their client because Packard Federal Corporation can sell the cabs covered by its pre-September contracts on more liberal terms than their competitors who did not have such contracts. However, the advantage is the result of the factual situation. There are undoubtedly many other cases where parties who had pre-September contracts enjoyed temporary competitive advantages over those who had not. However, this result could not be avoided except by repealing or construing away the exemption applicable to valid contracts made prior to September 1 granted in section 9(d), and the Board felt that it was more important to permit persons to carry out contracts made in good faith than it was to attempt the impossible task of drafting and administering a Regulation which would prevent any person from obtaining a temporary advantage over any of his competitors as the result of the intervening of the effective date of the Regulation.

"Messrs. Safir & Kahn cite as an illustration of the competitive disadvantages to which their clients are subjected, an incident in which they say one Duffey came to the showrooms of their client and placed an order for a taxicab on July 24, 1941, but cancelled the order subsequent to September 1, 1941, because the dealer demanded a down payment of one-third of the purchase price, which Duffey was unable to make. If Duffey, on July 24, 1941, entered into a valid contract specifying the terms on which the taxicab was to be sold, the dealer could have sold the cab on those terms, in view of the provisions of section 9(d). Accordingly if there was such a contract, the loss of the sale was the result of the ignorance of the parties as to the provisions of section 9(d) or of their unwillingness to avail themselves of its provisions, and was not the result of the Regulation or of any interpretation thereof issued by the Board.

"If you deem it advisable you may advise Messrs. Safir & Kahn that the Board is now reviewing the Supplement to Regulation W with a view to making certain changes in it, and in that connection is giving consideration to the question raised in their letter of August 30, as well as in a number of other letters which have been received by the Board, whether or not taxicabs should be excluded from the list of articles in the Supplement. If the Board should decide to do so, the situation of which

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"Messrs. Safir & Kahn complain would, of course, be eliminated. However, it is impossible at this time to say whether or not the Board will decide to amend the Supplement in this particular."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"The technical mission which was sent to Havana, Cuba, in compliance with the request of the Cuban Government for assistance in connection with monetary and banking questions has now returned to Washington and the Board of Governors wishes to thank you and your bank for making Mr. H. C. Frazer available to the mission during a large part of the time that it was in Cuba.

"The Board is informed that Mr. Frazer's services were of distinct value to the members of the mission. His wide acquaintance, both among bankers and businessmen of Havana and among Cuban Government officials, together with his excellent knowledge of Spanish, enabled him to render assistance that could not have been otherwise obtained. Mr. Frazer's services and the cooperation of your bank in this matter are appreciated."

Approved unanimously.

Memorandum dated November 6, 1941, from Mr. Wyatt, General Counsel, recommending, for the reasons stated in the memorandum, that \$500 be added to the item of Traveling Expenses in the 1941 non-personal budget for the Office of General Counsel.

Approved unanimously.

Mr. Morrill suggested that the Board authorize the payment of the cost of luncheons served in the Board's dining room today to Mr. Lauchlin Currie, Administrative Assistant to the President, Mr. Leon Henderson, Administrator of the Office of Price Administration, and

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Mr. Harold D. Smith, Director of the Budget.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.