

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 26, 1941, at 11:30 a.m.

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

Mr. Morrill, 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 December 24, 1941, were approved unanimously.

Telegrams to Messrs. Young and Leach, Presidents of the Federal Reserve Banks of Boston and Richmond, respectively, Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Stewart, Powell, and Hale, Secretaries of the Federal Reserve Banks of St. Louis, Minneapolis, and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on December 23, by the Federal Reserve Banks of Atlanta and Minneapolis on December 24, 1941, and by the Federal Reserve Banks of Boston and Richmond today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"It has been decided to revise the form of the Par List as of January 1, 1942, by (1) eliminating the lists of State bank members and nonmember clearing banks, and (2) listing only the cities served by one Federal Reserve office in States where all banks are on the Par List but are served by two Federal Reserve offices. In the latter case it will be clearly indicated that the remaining cities are served by another (specified) Federal Reserve Bank or Branch.

"The revisions have been indicated on a copy of the July 1, 1941, issue of the Par List, which has also been brought up to date as of December 1 on the basis of the last monthly supplement. A photostat copy of your district's portion of this copy of the Par List is enclosed. It will be observed that some minor changes in phraseology of headnotes have been made in the interest of consistent presentation.

"It will be appreciated if you will advise the Board by telegram on January 2, if practicable, of any changes necessary to bring your district's portion of the Par List up to date as of January 1, 1942, also whether the changes in the form of the Par List indicated on the enclosed copy are satisfactory."

Approved unanimously.

Telegram to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Re letter December 19, Board approves payment of bill your counsel, Squire, Sanders and Dempsey in total amount of \$5,000 for legal services and expenses in connection with the several matters outlined your letter these bills having already been approved by your executive committee."

Approved unanimously.

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

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"Referring to your letter of December 22, 1941, the Board approves a salary of \$3,720 per annum, effective January 1, 1942, for Mr. W. H. Sewell, Assistant Manager of the Foreign Funds Control Department."

Approved unanimously.

Letter to the Secretary of the Navy reading as follows:

"On December 15, 1941, the Federal Reserve Bank of New York received a cablegram from the South African Reserve Bank stating that the South African banks are being asked to negotiate United States dollar notes for Naval personnel calling at the South African port and that rates quoted by banks, owing to heavy insurance charges for shipping the notes, occasion holders heavy losses on exchange.

"To meet this situation, the South African Bank suggested that the notes be canceled or destroyed by the South African Bank and the amount thereof credited to the Federal Reserve Bank of New York, with which it maintains correspondent relations. This suggestion did not seem to the Federal Reserve Bank of New York to be a practical one due to the conditions under which the notes are issued. In lieu thereof, it suggested that it might be possible for the Navy Department to make arrangements for paymasters aboard Naval vessels, when in South African ports, to purchase such notes as are presented to them by the South African Bank, with checks drawn on the Treasurer of the United States, and, if the notes are not needed for current purposes, to retain them until the vessel returns to an American port.

"This matter was discussed informally over the telephone with Capt. Ellsworth Van Patten, Assistant to the Paymaster General, and he suggested that we write you regarding the practicability of working out a plan along the above lines for handling these notes.

"The plan seems to the Board to have considerable merit and it will be appreciated if you will advise us whether or not it is practicable from the standpoint of your office and, if it meets with your approval, what steps will be necessary to make it effective."

Approved unanimously.

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

"Reference is made to your letter of December 12, 1941 regarding three questions which you present as to whether certain persons are "engaged in the business" referred to in section 3(a) of Regulation W.

"You state that the persons in question extended credit which is clearly within the definition of 'instalment loan credit', and that they extend such credit with considerable frequency. However, they extend such credit largely from benevolent or charitable motives, and you ask whether this fact prevents them from being 'engaged in the business' within the meaning of section 3(a).

"In one case a corporation not organized for profit makes instalment loans of \$1,500 or less. Many of these loans -- perhaps most of them -- are exempted under section 6(c) or 6(d) but this does not alter the present question, since section 3(a) requires registration even though a person makes only loans which are exempted under section 6.

"In the second case, a large commercial or industrial business makes instalment loans of \$1,500 or less to its employees, chiefly to enable them to extricate themselves from financial difficulties, and there is no expectation that any profit will be realized by the lender from the transactions. The lender, for purposes of accounting convenience, establishes a special fund on its books and loans are disbursed from this fund and payments credited to it.

"The third case is similar to the second, except that the activities are conducted through a subsidiary corporation organized specially for the purpose.

"It is the view of the Board that the motives actuating the person engaging in such activities do not alter the application of the regulation and that, accordingly, in all three of the cases presented, the lenders are required to register under section 3(a) and the loans are subject to the appropriate provisions of the regulation."

Approved unanimously.

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Letter to Mr. Thomas F. Walker, Wytheville, Virginia, reading as follows:

"Receipt is acknowledged of your letter of December 18 asking whether Regulation W is applicable to Wytheville Building and Land Fund Association, which is a state-chartered mutual concern having no connection with any Federal bank or other Federal institution.

"You have undoubtedly seen the Executive Order of the President under which Regulation W was issued, but for convenience there is enclosed a copy of the Regulation, which contains the Executive Order in the Appendix. Your particular attention is invited to the fifth paragraph of the preamble summarizing some of the principal purposes of the Executive Order and of the Regulation. Stated in other words, the objectives of the Executive Order are, generally, to restrain the expansion of consumer debt, and, specifically, to dampen the effective demand for consumers' durable goods, since that demand tends to cause inflationary price rises, as well as to absorb materials increasingly needed for defense, and by deferring civilian demand at this time it sought to help avoid inflation, to aid defense, and to store up a backlog of buying power to offset a post-defense slump.

"The Executive Order was issued under section 5(b) of the Act of October 6, 1917, as amended, which is the statute under authority of which the President proclaimed the Banking Holiday in March 1933 and under which the Executive Orders 'freezing' foreign funds were issued last year. Like these two previous actions, the present Executive Order is not confined to Federally chartered or supervised institutions. The Banking Holiday applied to 'Federal Reserve Banks, national banking associations, banks, trust companies, savings banks, building and loan associations, credit unions, or other corporations, partnerships, associations or other persons, engaged in the business of receiving deposits, making loans, discounting business paper, or transacting any other form of banking business', and the freezing orders include 'any person engaged primarily or incidentally in the business of banking, of granting or transferring credits \* \* \* or any person holding credits for others as a direct or incidental part of his business \* \* \*.' The present Executive Order includes, without limitation, any bank, any loan company, any finance company, or any other person engaged in the business of making or holding extensions of credit whether as a vendor of consumers' durable goods or otherwise' and

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"it therefore applies not only to all banks and other financial institutions making extensions of instalment credit but also to automobile dealers, department stores, and others selling listed articles on an instalment basis. Accordingly, the answer to your question is that Regulation W is applicable to the Wytheville Building and Land Fund Association if that Association is engaged in the business described in section 3 of the Regulation.

"It is hoped that this letter will furnish you with the information you desire. However, the administration of the Regulation has been decentralized, and if you have any further inquiries regarding it it is suggested that you refer them directly to the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to the Simplex Manufacturing Company, New Orleans, Louisiana, reading as follows:

"This is with further reference to correspondence with you concerning your request for the removal of motor bicycles from the list of articles specified in the Supplement to Regulation W or for the reduction of the down payment required.

"The Board has decided that a change in the regulation with respect to the treatment of motor bicycles would be inappropriate under present circumstances. The reasons for this decision have been discussed at some length in previous correspondence with you. In view of the purposes of the Executive Order and the kind of product that a motor bicycle is, the Board can find no justification for special treatment of this product.

"The Board is quite aware that curtailment of your production may result in considerable financial sacrifice by your company, but this is believed to be a result not of Regulation W but of the emergency in which the nation finds itself."

Approved unanimously.

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

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"Receipt is acknowledged of your letter of December 16 addressed to Dr. Parry regarding section 8(b) of Regulation W.

"The question, which is raised by an example in an interpretation of Regulation W prepared by the American Association of Personal Finance Companies, and also by another inquiry received by you, is as follows: Where a loan which was originally made for less than 18 months is consolidated under section 8(b) with an additional advance, do Options 1 and 2 require that the payments on the consolidated obligations be arranged on the basis of the terms which were in effect on the outstanding obligation at the time of consolidation, or may the terms of the consolidated obligation be arranged on the basis which would have been permissible under Option 1 or Option 2 if the terms of the outstanding obligation had been extended to the full 18 months prior to the consolidation?

"Section 8(b) refers to the rate of payment on the outstanding obligation which was in effect at the time of consolidation, and therefore might be interpreted as prohibiting a consolidation based on any longer terms. However, under section 8(a) and section 8(c) the outstanding obligation could be revised to an 18-month basis, and immediately after such revision an additional loan could be made and then consolidated with the previous obligation, as revised. In other words by performing the transaction in two steps, the result could be accomplished without violating the literal terms of the Regulation. Accordingly, it would be futile to say that the Registrant is prohibited from accomplishing the result in one step. Therefore the Board is of the opinion that the example given by the American Association of Personal Finance Companies is correct."

Approved unanimously with the understanding that a copy of the letter would be sent to all Federal Reserve Banks.

Memorandum dated December 22, 1941, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the January issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

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Investment of Common Trust Funds in United States Savings Bonds;

Valuation of United States Savings Bonds in Common Trust Funds;

Forms of Statement of Borrower and Statement of Necessity;

Interpretations of Regulation W;

Declarations of War;

First War Powers Act;

General License Issued by the President;

Executive Order on Transfers of Property of Foreign Countries and Their Nationals; and

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

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

Leonard Ransom  
Vice Chairman.