A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, January 14, 1942, 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 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 January 13, 1942, were approved unanimously.

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

"Referring to your letter of January 10, 1942, the Board of Governors approves the reappointment of Messrs. John E. Sanford, George Winship, I. C. Milner, W. W. French, Sr., and Andrew M. Lockett as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each beginning March 1, 1942."

Approved unanimously.

Letter to Mr. H. D. Nagel, Comptroller of The Chase Bank, New York, New York, reading as follows:

"Receipt is acknowledged of your letter of January 6, 1942 (your reference 1-22 JP), inquiring as to the manner in which the call report of condition as of the close

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"of business December 31, 1941, which was requested in the Board's letter of January 3, 1942, should be prepared since the usual year end statements from the three Far Eastern branches are not available.

"In view of the unusual circumstances prevailing, it will be agreeable if you will supply the information called for on Form 314 for the three Far Eastern branches from the detailed statements of condition for these branches as at the close of business October 25, 1941, which you advise are the latest such statements available. It will be appreciated also if you will prepare two sets of statements of condition for the Head Office and all branches, in the first using the statement figures for the three Far Eastern branches as at the close of business October 25, 1941, and in the second using the condensed cabled figures for these branches as at the close of business November 30, 1941. In both sets of statements the figures for the Head Office should be as of December 31, 1941, and those for the Paris Branch should be as near that date as the information available to you allows.

"Should you encounter additional difficulties in preparing the reports called for, the Board will be glad to give further consideration to the problems presented by the break in communications with your foreign branches."

Approved unanimously.

Letter to Mr. Neil G. Greensides, Acting Chief of the Division of Examination of the Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of January 14, 1942, the Board of Governors of the Federal Reserve System hereby grants written consent, in accordance with the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the State Bank of Mayville, Mayville, Wisconsin, in connection with its application for continuation of deposit insurance as a nonmember bank.

"It is understood that plans have been worked out whereby the State Bank of Mayville will assume the deposits of the Knowles State Bank, Knowles, Wisconsin, and establish

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"and operate a paying and receiving station at Knowles. Under the provisions of the Federal Reserve Act the bank's capital is insufficient to permit it to establish the proposed branch as a member bank, and it is understood that accordingly the bank is filing application with the Federal Deposit Insurance Corporation in order that its status as an insured bank may continue without interruption after withdrawal from membership in the System.

"The bank was last examined by the Federal Reserve Bank as of June 7, 1941. The report of examination disclosed a generally satisfactory condition and a substantial capital position. In response to your inquiry, it might be stated, therefore, that there are no corrective programs pending which it is suggested should be considered in connection with the bank's application for insurance as a nonmember bank."

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 7 asking certain questions regarding sections 5(f) and 8(f) of Regulation W.

"The first question is whether a Registrant may make a loan to a father to enable him to repay a pre-existing debt to his son, where all the parties know that the son is going to use the money to make the down payment on a listed article.

"The Board agrees with you that where the son does not become surety on the debt, the loan is not prohibited by section 5(f), since its purpose is to discharge the existing indebtedness of the father to the son, and not to make the down payment.

"On the other hand, as you state, if the loan is to be made on condition that the son will be surety on the father's debt, the loan should be regarded as prohibited by section 5(f), because the consideration which supports the son's promise is the loan to the father, the proceeds of which will be paid to the son. Moreover, the loan to the father is not only the consideration for the son's promise in the strictly legal sense, but is also the real motive, since it enables him to obtain the money.

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"You also ask whether a Registrant selling a listed article could extend the maximum amount of credit otherwise permitted by the Regulation if he knew that the down payment had been obtained in the circumstances described above, in view of section 8(f). This section is worded differently from section 5(f) in that it refers to an extension of credit 'in connection with the purchase of the listed article' whereas section 5(f) refers to an extension of credit 'to be used to make a down payment' but the Board agrees with you that, in the case which you have put, this difference in wording should not be regarded as significant and that the results stated above follow under section 8(f) also.

"It is assumed, of course, that the father was actually indebted to the son and that the indebtedness was not created merely as a part of a scheme to evade the Regulation."

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 7 addressed to Mr. Dreibelbis relating to a question submitted to you by Mr. Irvin Wesley, President of the American Association of Personal Finance Companies.

"Upon further consideration it appears that the advice given to you by telephone was not correct, and that the point which you raise in the third paragraph of your letter is a valid one.

"The question may be illustrated by a case in which a Registrant has made a loan of $180 repayable in 18 instalments of $10 each, and the borrower, after paying the first two instalments, fails to pay the third and fourth. The parties then wish to revise the contract so as to pay the balance of $160 in 14 equal instalments.

"Such a revision would not be permitted by section 8(a) because it would have the effect of changing the terms of repayment to terms which would not have been permitted in the first instance, namely, an 18-month contract with two monthly payments of $10, followed by two months in which no payments were to be made, followed by

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"14 monthly payments of $11.43. Even in a case where the later instalments are not 'substantially' greater than the first instalments, such a contract would not be permitted because section 5(c)(3) requires intervals not exceeding one month.

"If the obligor's income were seasonal, or if he were a farmer, the contract could have been written originally so as to omit certain payments, and a contract with such an obligor could be revised later so as to provide any schedule of payments which would have been permissible in the first instance. However, this point does not appear to be involved in the question raised by Mr. Wesley.

"Of course, the case could be handled under section 8(d) with a Statement of Necessity, or under section 8(a)(2) after a bona fide collection effort, as you point out. Probably the point of Mr. Wesley's question is whether it is necessary to resort to either of these two provisions where the revision is so slight. It is true that the revision would be slight in the example cited, but if the principle suggested were adopted it would permit substantial revisions in other cases. The Board might provide that delinquent payments could be added on to subsequent payments if not more than one month's payments were in default, but this would have to be done by amendment. There would seem to be some question whether such an amendment would be desirable in view of the other methods by which the same adjustment can be accomplished, i.e., with a Statement of Necessity or after a bona fide collection effort.

"If there were no add-on or take-over, there would be still another way of dealing with the question. The Regulation does not require a Registrant to take any action when an instalment is not paid. If a Registrant wishes to revise or rewrite a contract, he must comply with the applicable provisions of the Regulation, but if a Registrant in the ordinary course of business merely refrains from foreclosing, repossessing or bringing suit in such a case, he would not be violating the Regulation, unless, of course, he were acting pursuant to a scheme designed to evade the Regulation. Obviously, if the Registrant made a practice of taking no action in such cases, and if the practice were known to the obligor, there would be at least a presumption that he was evading the Regulation.

"Mr. Wesley's problem is a difficult one, and we will be glad to receive any further comments or suggestions

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"which you may have regarding an amendment."

Approved unanimously.

Letter to Mr. Arthur J. Morris, President of The Morris Plan Industrial Bank of New York, New York, New York, reading as follows:

"This is in reply to your letter of January 7, 1942, in which you ask what principle of Regulation W would be departed from in case the Board should so amend the regulation as to permit the initial payment on an instalment loan to be deferred for as long as 90 days.

"The essence of the matter is that in the judgment of the Board the same rule on this subject should apply both to instalment sales and to instalment loans and that the rule should be one requiring the payments to begin promptly. Unless they do, the customer or borrower will be likely in many cases to fail to appreciate the full burden of the periodic payments that he will have to make, and will consequently be more likely to yield to the temptation to buy or to borrow. A given number of dollars to be paid three months from date 'looks smaller' than the same number to be paid next week or next month. In conformity with this principle, the regulation is so constructed that all three of its essential elements -- minimum down payment at the time of sale, payments to begin promptly, and maximum maturity -- are integrated. More specifically, both the requirements concerning down payments and those concerning maturity have been fixed at their present level on the assumption that periodic payments will begin promptly."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.

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