

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 20, 1942, at 11:15 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 February 19, 1942, were approved unanimously.

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 February 17, by the Federal Reserve Banks of New York, Atlanta, Chicago, and San Francisco on February 19, 1942, and by the Federal Reserve Banks of Boston and Philadelphia today, of the

2/20/42

-2-

rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of February 9, 1942 regarding the duties of Mr. Clayton E. Tillander as Assistant Federal Reserve Agent and Mr. Walter S. Ferrian as Alternate Assistant Federal Reserve Agent. We note your statement that these gentlemen will devote practically all of their time to the examination department.

"It is recognized that since their duties as Assistant Federal Reserve Agent and as Alternate Assistant Federal Reserve Agent will require only short periods of time, most of their time will be utilized in carrying on other work in the bank with the approval of Mr. Coffey and yourself, and that in performing such other work, as distinguished from their work in the Agent's department, they will be answerable to their superior operating officers."

Approved unanimously.

Letter to Mr. Day, Chairman of the Conference of Presidents, reading as follows:

"This is to acknowledge receipt of your letter of February 13 advising the Board of the appointment of a standing committee of the Presidents on Personnel Selection and Training, consisting of Mr. Allan Sproul, Chairman, Mr. Matthew J. Fleming and Mr. John N. Peyton.

"In accordance with the suggestion referred to in the last paragraph of your letter, Mr. Szymczak has been designated as the member of the Board to be associated with this committee. It will be greatly appreciated if you will advise the committee accordingly."

Approved unanimously.

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

-3-

2/20/42

"Receipt is acknowledged of your letter of February 7 presenting a question arising under section 5(e) of Regulation W based upon the following set of facts:

"A Registrant granted an installment loan to an obligor on September 30, 1941, secured by a non-listed article. The present unpaid balance is \$100. The obligor now requests a \$200 loan which would be secured by an automobile purchased within 45 days prior to the date of the new loan (bona fide cash purchase price \$300). If the lender grants the second loan the two loans will be combined in one and secured by the automobile.

"Question: Does the application of the security to the \$100 debt result in reducing the maximum credit value of the security by the sum of \$100?"

"You are of the opinion that if the \$100 loan is secured by the automobile as well as the previously purchased nonlisted article, solely because of a 'spreader clause' or 'overlap agreement', the second paragraph of section 5(e) would apply and that the \$100 loan should not be considered as credit outstanding against the automobile, with the result that the second loan could be made for \$200 (that is, the full credit value of the automobile). The Board agrees with you.

"However, you suggest that if there is no spreader clause, overlap agreement or other condition mentioned in the second paragraph of section 5(e), and if the old obligation becomes secured by the newly acquired listed article solely by virtue of a new agreement of the parties, the maximum credit value of the listed article should be reduced by the amount of the old \$100 debt. You think that the first paragraph of section 5(e) does not alter this result because it refers to a single extension of credit and is therefore not applicable in the case presented, where there are two extensions of credit. However, there is of course only one obligation after the two extensions of credit have been combined, and the Board is therefore of the opinion that the case presented is within the letter as well as the intent of the first paragraph of section 5(e), and that the maximum credit value of the listed article should not be reduced by the amount of the old \$100 debt."

Approved unanimously.

2/20/42

-4-

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

"Reference is made to your letter of January 7, 1942 enclosing a copy of a letter from Mr. H. M. Johnson, Cashier of The First National Bank of Fairmont, Minnesota, stating that he had been under the erroneous impression that Title I, F.H.A. loans could have a maturity of 36 months and that his bank had accordingly taken several loans with maturities in excess of the maximum permitted by Regulation W. You request the Board's comments as to the procedure which should be followed in a case of this kind.

"In view of the provisions of section 3(a) it appears that the bank would be violating the Regulation if it received any payments on those loans. Consequently, literal compliance with the terms of the Regulation would require either that the obligations be cancelled entirely with the return of all monies paid and received, or that they be re-written on terms which would comply with the Regulation as of the date on which they were originally made.

"Since there may be serious difficulties if either of these courses is followed, and since it appears that the bank acted innocently in the first instance with respect to these obligations, that it now understands the Regulation, and that it is making every effort to comply with it, the Board believes that it will be proper for you to advise the bank that neither your Bank nor the Board would be disposed to take or recommend any punitive action as a result of these technical violations of the Regulation, either in taking the paper or receiving payments thereon. For your own protection, as well as that of the Board, in case a question should ever arise, it should be mentioned that the Board does not have authority to waive violations of the Regulation since any possible criminal prosecutions arising out of such violations are within the jurisdiction of the Department of Justice which would make final decisions on such prosecutions. You may take such steps as you deem appropriate to bring this phase of the matter to the attention of Mr. Johnson for his information.

"Steps are now being taken at the Board to develop a general program of enforcement, and in the course of developing this program conferences will undoubtedly be held with representatives of the Department of Justice and in the course of such conferences we will attempt to reach an agreement with that Department as to the appropriate manner of handling cases

2/20/42

-5-

"of the kind above referred to which may arise in the future."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"There is enclosed herewith a copy of a letter addressed to Mr. Donald M. Nelson, which has been referred to the Board, with respect to a possible violation of the Board's Regulation W. It will be appreciated if you will handle the matter in accordance with the policy outlined in the Board's letter of October 10, 1941 (S-368) relating to matters of this kind."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Morrie

Secretary.

Approved:

W. C. ...

Chairman.