

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 13, 1942, at 2:00 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
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 March 12, 1942, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held with the executive committee of the Federal Advisory Council on March 12, 1942, were approved unanimously.

Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, stating that the Board of Governors approves for the Richmond Bank, effective March 14, 1942, the rate of 1 per cent established by the board of directors of the Bank on advances and re-discounts to banks under Sections 13 and 13a of the Federal Reserve Act, and the re-establishment by the directors without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board of Governors approves for the Bank, effective March 14, 1942, the rates fixed by the board of directors

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of the Bank of 1 per cent on rediscounts and advances to banks under Sections 13 and 13a of the Federal Reserve Act, of 1-1/2 per cent on advances under Section 10(b), and 3 per cent on advances to individuals, partnerships, and corporations other than banks under the last paragraph of Section 13, and the re-establishment by the directors without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Telegrams to Messrs. Sanford, Hays, Dillard, and Powell, Secretaries of the Federal Reserve Banks of New York, Cleveland, Chicago, and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 10, and by the Federal Reserve Banks of New York, Cleveland, Chicago, Minneapolis, Kansas City, and Dallas on March 12, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 11, 1942, from Mr. Morrill, recommending that Miss Elsie M. Westman be appointed as private secretary to Governor Evans, with salary at the rate of \$3,000 per annum, effective as of the date upon which Mr. Evans is sworn in as a member of the

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Board.

Approved unanimously.

Memorandum dated March 10, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that the salary of Mrs. Nancy R. Porter, a stenographer in that Division, be increased from \$1,700 to \$1,800 per annum, effective April 1, 1942.

Approved unanimously.

Memorandum dated March 10, 1942, from Mr. Nelson, Assistant Secretary, recommending that Benjamin R. Reading, a guard in the Secretary's Office, be granted leave of absence without pay beginning March 20, 1942, so that he might enter active duty with the United States Marine Corps, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously.

Letter to Mr. Williams, Head of Consumer Credit Department of the Federal Reserve Bank of Philadelphia, reading as follows:

"Thank you for your letter of March 9, 1942, with respect to your experience in connection with the classification of water heaters under Regulation W.

"In view of your comments, the opinion given in the Board's letter of December 24, 1941, will not be given general circulation."

Approved unanimously.

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

"This is in response to your letter of March 4 regarding the provisions of section 8 of Regulation W

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"as amended by Amendment No. 3.

"Your first question is whether an instalment loan which had 18 instalments of \$10 each, three of which are in default, and which has 12 months to run, may be consolidated under Option 2 in section 8(b) with an additional advance of \$150 so as to make a consolidated obligation providing for 15 monthly payments of \$20 each.

"Option 2 would permit a consolidation upon these terms since the instalments are 'at least as large' as on the outstanding obligation, and since the consolidated obligation will be liquidated in 15 months.

"Option 1 incorporates by reference the provisions of section 8(a), including footnote 4, because it refers to terms 'such as would have been necessary to meet the requirements of this regulation if the several obligations had not been consolidated'. However, Option 2 does not incorporate the provisions of section 8(a) by reference and therefore consolidations under Option 2 may be made without regard to whether the old obligation is delinquent.

"In view of the above, your second question does not arise.

"We hope that this will give you the information which you desire, but if it does not, please let us know so that we can consider the matter further."

Approved unanimously.

Letter to Mr. Gilmore, Assistant Cashier of the Federal Reserve Bank of St. Louis, reading as follows:

"This will acknowledge your letter of February 25th, containing two questions regarding Regulation W.

"Your first question is whether a bank may lend \$600 on an automobile costing \$900 if a portion of the money is to be used to pay off the outstanding balance on the obligor's old car, which is to be used as a trade-in on the new car (assuming that the obligor's equity in the old car is sufficient to provide the required down payment on the new car).

"The Board believes that the regulation would permit the lending institution to make the \$600 loan, repayable in 18 equal monthly payments, notwithstanding the fact that part of the amount was in effect a refinancing of

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"the existing balance due on the old automobile. This conclusion is reached because of the fact that the essential nature of the transaction is the financing of the purchase of an automobile and the use of the equity in the purchaser's old car as the down payment (as described in W-63), notwithstanding the fact that the transaction takes the form of an 'addition to outstanding credit held by the Registrant'. A statement of the Borrower is, of course, required, as in the case of any other extension of instalment loan credit, and the application of part of the loan to repay the balance due on the old car should be indicated as required by questions 3 and 6 of the Statement form.

"Your second question is whether a bank making a remedial loan for the purpose of repaying an obligation held elsewhere which is in default and is the subject of a bona fide collection effort, may make the remedial loan on any basis desired, without regard to the provisions of the regulation, on the ground that since the original holder could have done so under section 8(a)(2) the new lender may do so in view of section 8(c).

"The Board is of the opinion that section 8(c) does not permit the remedial loan to be made without regard to the provisions of the regulation. The significant features of the provision in section 8(a)(2) are not only that the obligation which the Registrant holds must be in default, but also that the action must be 'for the Registrant's own protection'. The Registrant making a loan to take over an obligation held elsewhere would not be acting for his own protection. Of course, this would not prevent the Registrant from making a remedial loan on a Statement of Necessity as provided in section 8(d)."

Approved unanimously.

Telegram to Mr. Gilmore, Assistant Cashier of the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire March 7. If the connecting line is not the property of the consumer or if the building is designed exclusively for nonresidential use, Board agrees that materials and services would not be Group E items.

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"However, if connecting line does belong to consumer and if building is not designed exclusively for nonresidential use, Board believes materials and services would be Group E items."

Approved unanimously.

Letter to Mr. C. R. Orchard, Director of the Credit Union Section of the Farm Credit Administration, reading as follows:

"This is in reply to your letter of March 5, 1942 asking for an answer to the following question which you have received concerning Regulation W:

'May a registrant make a loan for a period of 18 months under Regulation W but provide for its repayment in 12 equal installments, the first payment beginning 6 months from the time the loan was made?'

"We do not know of any way this could be done under Regulation W, unless, of course, the loan is of a kind which is excepted by one of the provisions of section 6 or unless the amount of the loan is greater than \$1500.

"You are, of course, familiar with section 9(f) entitled 'Farmer Plans', and with section 5(c)(3) of the Regulation (a copy of which is enclosed for convenience). However, as indicated above, neither of these provisions would permit a loan on the terms described in the question.

"We trust that this will furnish you with the information which you require, but if not, please let us know."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.