

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, May 25, 1942, at 11:00 a.m.

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

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 May 23, 1942, were approved unanimously.

Memoranda dated May 20, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that the following increases in salaries of employees in that Division be approved, effective as of June 1, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John Joseph Hart	Assistant Federal Reserve Examiner	\$1,400	\$1,600
Mrs. Helene K. Walters	Stenographer	1,800	1,900
W. J. McClelland	Federal Reserve Examiner	4,500	4,600
P. J. Winkler	Federal Reserve Examiner	4,500	4,600
Gordon R. Murff	Federal Reserve Examiner	4,800	5,000

Approved unanimously.

Memorandum dated May 20, 1942, from Mr. Paulger, Chief of the

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Division of Examinations, recommending that Edwin J. Johnson, an Assistant Federal Reserve Examiner in that Division, be granted a leave of absence without pay beginning May 21, 1942, so that he might enter active duty with the United States Naval Reserve, 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.

Telegram to Mr. Mulroney, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Your letter May 22, 1942. Board extends until July 15 time within which South Chicago Savings Bank, Chicago, Illinois, may complete membership in the System."

Approved unanimously.

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

"In connection with the execution of guarantee agreements on behalf of the United States Maritime Commission pursuant to Executive Order No. 9112, the Board has received a memorandum dated May 15, 1942 from Mr. R. E. Anderson, Director of Finance, United States Maritime Commission, transmitting a form of certificate which has been prescribed by the Commission for use by the Director of Finance or representatives of the Commission under the first paragraph of section 2 of the instructions of the Maritime Commission to all Federal Reserve Banks dated May 7, 1942. A copy of Mr. Anderson's memorandum and a copy of the form of certificate authorized by the memorandum are enclosed herewith.

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"Your attention is called to the fact that the form of certificate provides places for the signatures of two authorized representatives of the Maritime Commission. In this connection the Board has received an explanatory letter from Mr. Anderson, dated May 21, 1942, containing the following paragraph:

'The form of certificate which has been prescribed by the Maritime Commission pursuant to the first paragraph of section two of our Instructions to all Federal Reserve Banks will require two signatures of authorized field representatives. In those cases where this Production Certificate is furnished by authorized representatives of the Maritime Commission located in Washington, two signatures will also be required.'

Approved unanimously.

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

"With respect to the standard form of guarantee agreement dated May 14, 1942 approved by the agencies concerned for use in connection with operations under Executive Order No. 9112, there is enclosed a copy of a memorandum dated May 21, 1942 which the Board has received from Lieutenant Colonel Paul Cleveland, Chief, Advance Payment and Loan Section, War Department. It will be noted that in accordance with this memorandum, a special condition should be inserted in section 13 of all guarantee agreements executed by the Federal Reserve Banks on behalf of the War Department under the Executive Order above mentioned."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks except Boston, Philadelphia, and Chicago, reading as follows:

"In reviewing the experience to date with respect to applications for guarantees of loans pursuant to Executive Order 9112 of March 26, 1942, it is noted that only one Federal Reserve Bank branch has been forwarding

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"such applications direct to Washington. It is assumed that in all other cases applications for guarantees of loans are accepted at the branches and forwarded to the head office for handling. With a view to expediting the processing of applications as much as practicable, it has been suggested that pending the appointment of liaison officers a procedure might be worked out whereby applications submitted to the branches might be forwarded direct to Washington, unless the guarantees requested are in unusually large amounts or other special considerations would seem to make it desirable to forward them through the head office.

"It will be appreciated if you will give this matter consideration and advise us at your early convenience whether, and, if so, under what general circumstances, it will be feasible to have your branch or branches transmit certain of the loan applications direct to Washington, with, of course, appropriate advice to the head office."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"This refers to the letter dated April 9, 1942, which Mr. C. B. Upham, Deputy Comptroller of the Currency, addressed to the Board of Governors of the Federal Reserve System relative to participation by national banks in the lending program contemplated by Executive Order No. 9112. A copy of this letter was sent to each Federal Reserve Bank and since there has been so much interest shown in this matter it is proposed to publish the letter in the Federal Reserve Bulletin. We understand from conversations with a representative of your office that there is no objection to such publication and this is merely to inform you that the text of the letter will be published in the next issue of the Bulletin which will be released shortly after June 1."

Approved unanimously.

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

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"Referring further to telegram of May 8 and the joint announcement of Federal supervisory agencies with respect to the amortization of loans to individuals for nonproductive purposes, you are reminded that the wire referred to was sent as the basis of instructions to your examiners.

"Since a national policy is involved, it is requested that no circularization of member banks on the subject of the policy be made without first clearing the matter with the Board of Governors in order that there may be uniformity of interpretation of policy."

Approved unanimously.

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

"Reference is made to your two letters of May 14 which make inquiry concerning the list of articles in section 13 of Regulation W.

"It is the view of the Board that electrical hearing devices are not included in Group A, Item 14, or elsewhere on the list.

"Upholstery work is a listed article, chiefly because of the inclusion of the material in Group A, Item 41. The 'article' as commonly sold would include also the service or installation charges.

"Group A, Item 23, includes men's wallets as purses. It does not include comb, brush and mirror sets, since these are not considered to be 'toilet cases'.

"Group A, Item 35 includes as household utensils chromium cocktail sets, chromium punch sets and candy dishes. These are among the items about which inquiry was made in the May 9 letter of J. J. Stein to your bank, of which a copy was enclosed in your letter of May 14. It would not appear that there is any need for comment by the Board on any of the other items mentioned in his letter."

Approved unanimously.

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

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"Many thanks for your letter of May 20, 1942, enclosing letter of May 15 from Mr. A. C. Stevensen, Secretary, Retail Credit Association of Minneapolis.

"Will you please let Mr. Stevensen know that this has been brought to the attention of Mr. Ransom and those associated with him in the administration of Regulation W, and that it will be given careful study.

"The same misgiving concerning the possible undermining effect of the six-month method of 'curing defaults' has been expressed in other quarters. At the same time, the misgiving does not seem to be altogether general among the merchants who have been in touch with us, or even to be so widely held as to indicate that the Board should consider its repeal before obtaining the results of some experience. In any event, however, the matter certainly deserves, and is receiving, careful study.

"You will recall, and we assume that you will pass the point on to Mr. Stevensen, that there was a reason for adopting the six-month method instead of the one suggested by Mr. Stevensen -- that credit be withheld until the default is cured by full payment. The reason was that payment in full could always be made by the customer with money borrowed from a cash lender, presumably on the instalment plan over a period of months, unless this were itself forbidden, which would not seem to be good public policy. If you or Mr. Stevensen have any suggestions as to how the Board could meet that situation, we should be very glad to have them."

Approved unanimously.

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

"This will acknowledge your letter of May 18, 1942, enclosing letters from G. B. Peyton, Controller, Joske Bros. Company, and W. H. Ryan, suggesting certain changes in Regulation W.

"The problems mentioned in these letters are being given study by the Board, and the comments made by your correspondents will be taken into consideration. For your information, it might be mentioned that in some Federal Reserve Banks there seems to be an indication that after the merchants have had a little chance to consider the

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"matter and examine into the possibilities for adjustment in their present practices they have not been so disturbed about the use of the calendar month test in the charge account provision as they were at first. A good many difficulties can be seen in working out some change which would take into account all of the various billing practices throughout the country, and it is the feeling of the staff that a change should be avoided if at all possible. The Board will be very glad to have your comments on how serious a problem you believe this to be."

Approved unanimously.

Letter to Mr. Francis A. Bonner of the Consumer Credit Control Unit, Office of Price Administration, reading as follows:

"This refers to the memorandum of May 20 from Mr. S. M. Jacobs to you, a copy of which you left with Mr. Wyatt. The question is whether a department store may open charge accounts for its employees, the accounts to be liquidated in full within 42 days by pay roll deductions.

"Your question is similar to that which has been raised several times recently in connection with pay roll deduction plans, and there does not seem to be any escape from the conclusion that the credit is instalment credit and the Regulation is not complied with unless the article is not delivered to the employee until the proceeds of the pay roll deductions are equal to the down payment required by the Regulation.

"It appears from this and other communications that the whole subject of instalment credit that is outstanding for no longer than is permitted for charge account credit needs to be studied carefully. We should appreciate any comments on this subject.

"If this does not furnish you the required information, you know that we will be very glad to hear from you further. The memorandum is returned to you herewith. A copy has been retained for our files."

Approved unanimously.

Letter to Mr. Ernest L. Cunningham of Amer, Cunningham & Keeney, Akron, Ohio, reading as follows:

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"As you were advised by Mr. Bonner, the Office of Price Administration has referred your letter of May 9 to the Board of Governors.

"Assuming that the dental laboratories to which you refer do not make loans, Regulation W would not affect them unless they make sales of 'listed articles' either in charge accounts or on an instalment basis. If they do not sell any 'listed articles' the Regulation would not be applicable to them. 'Listed articles' are those listed in section 13(a) of the Regulation.

"Since the matter is somewhat complicated, a word of explanation may be in order. The Executive Order of the President to which you refer is the authority under which the Regulation was issued. It refers to durable and semi-durable goods, but, although the Regulation has recently been amended so as to cover a much larger list of goods than previously, it still does not cover all goods which come within those terms.

"With respect to charge accounts, the provisions of the Regulation to which you refer may be summarized as follows: a charge account is in default if any article in the account (whether a 'listed article' or not) has not been paid for by the tenth of the second month following the month during which the article was bought. When an account is in default, no 'listed articles' may be charged. However, the Regulation does not prevent a customer from charging an unlisted article in an account even though the account is in default. In other words, if a store sells both food and clothing, and the customer has bought nothing but food and has allowed his account to go in default, he may not charge any clothing to the account, but he may still charge food (if the storekeeper is willing.)

"The administration of the Regulation has been decentralized and, therefore, it is suggested that if you have any further inquiries you may find it more convenient to address them directly to the Federal Reserve Bank of Cleveland."

Approved unanimously.

Letter to Miss Hester G. Garner, Kansas City, Kansas, reading as follows:

"The President has referred to the Board your letter

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"of April 7, 1942, inasmuch as it is the Board's Regulation W which has established certain requirements with respect to the financing of automobiles.

"There is no provision in Regulation W for more liberal terms in cases such as yours. The regulation is one of national application, and it would have to be too complex to be workable if all situations which might be thought to deserve special consideration were taken into account and provided for in accordance with their merit.

"The Board is aware that in a limited number of cases hardship will result but this can not be avoided in these very serious times. The Board knows that the public recognizes that sacrifices must be made if the war is to be won.

"It is possible that you will be able to arrange monthly payments more in keeping with your ability to pay if you purchase a used automobile similar to the one which was wrecked.

"The administration of Regulation W is decentralized among the twelve Federal Reserve Banks, and any further questions that you may have on this subject should be directed to the Federal Reserve Bank of Kansas City, 10th Street and Grand Avenue, Kansas City, Missouri, in whose district you are situated."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to Mr. J. A. Gross, General Manager of the Retail Merchants Credit Association of Los Angeles, Los Angeles, California, reading as follows:

"In your letter of May 15, 1942, you present certain questions on behalf of the petroleum industry members of your Association. The first question is whether petroleum products such as gasoline and lubricants are governed by Regulation W.

"Petroleum products, as such, are not specifically included among the articles of consumers' durable and semi-durable goods listed in section 13(a) of the Regulation, and therefore sales of such products are not generally subject to the Regulation. However, your attention is invited to Group C of section 13(a) which, in some cases, might include certain petroleum products.

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"Your second question is whether a Registrant is permitted to have one charge account with a purchaser for unlisted articles, and another charge account with the same purchaser for listed articles.

"The Regulation does not specifically prohibit a vendor from having different charge accounts for a customer for purchases of different products or articles, whether listed or unlisted. However, under sections 2(f) and 2(g) 'charge account' means the total indebtedness arising from 'charge sales,' whether for listed or unlisted articles, between the same seller and purchaser. Therefore, for the purposes of the Regulation, all charge accounts for the same customer on the books of a vendor are considered as one, and it is immaterial that some of the accounts are for the purchase of unlisted articles while others are devoted to listed articles.

"In addition, in connection with your second question, it should be noted that when a charge account, as defined above, becomes in default under section 5(c), section 5(b) forbids the Registrant from making any further charge sale or instalment sale to the customer 'of any listed article' until the default has been cured by one of the methods described in section 5(d).

"The administration of Regulation W has been decentralized and, therefore, you may find it more convenient to address any further inquiries that you may have to the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to Mr. E. Rosenkrantz, Manager of the Federal Outfitting Company, Fresno, California, reading as follows:

"This will acknowledge and thank you for your letter of May 15, 1942 addressed to Chairman Eccles and relating to the Board's Regulation W on consumer credit.

"The Board is appreciative of the fine attitude which is being taken by you and other merchants of the country in supporting the President's program for the curtailment of debt.

"It is recognized that the regulation permits a customer who is in default at one store to open an account at another, but the Board believed that, with the voluntary

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"cooperation of the merchants and the public, avoidance through this practice would be small. The problem is one, however, which must be given continuing study.

"In answer to your question about the use of the term 'Budget', the regulation treats as instalment credit all types of credit which correspond with the definition of instalment credit in the regulation no matter what they are called by the merchants.

"The administration of Regulation W is decentralized among the twelve Federal Reserve Banks, and you will find it more convenient to direct any further comments or questions that you may have on this subject to the Federal Reserve Bank of San Francisco, San Francisco, California, in whose district you are located."

Approved unanimously.

Memorandum dated May 23, 1942, from Mr. Smead, Chief of the Division of Bank Operations, Mr. Parry, Chief of the Division of Security Loans, and Mr. Thomas, Assistant Director of the Division of Research and Statistics, reading as follows:

"The joint statement of the Federal banking supervisory agencies regarding procedure to be followed to encourage the reduction of individual debt through amortization of bank loans concluded with the following paragraph:

'In order to provide a measure of the volume of personal loans, banks will be asked from time to time to report information as to the amounts of single-payment personal loans on their books in addition to information now being reported as to instalment paper.'

"This information can be obtained from banks by a simple revision of Schedule A-1, which in recent years has been filled out by banks in connection with June and December calls. A copy of this schedule with proposed revisions indicated in red is attached.

"If the information is to be obtained by the banking supervisory agencies in their June calls, it is necessary that prompt action be taken to obtain an agreement on the form. Attached is a draft of a letter to be sent to the

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"Comptroller of the Currency and the Federal Deposit Insurance Corporation, indicating that the Board would like to have this information and enclosing a copy of the amended schedule to indicate how the data may be obtained.

"An alternative method of collecting this information would be for the Reserve Banks to send this schedule or a similar one to all commercial banks and also to other lending agencies engaged in the business of extending consumer credit. This procedure would have some advantage in that the Federal Reserve Banks would obtain figures for each individual bank and be able to compile reports from that information within such time and in such manner as we may wish. We believe, however, that at this time it would be better to obtain the information from insured banks through the customary channels, as the other procedure raises a number of questions of inter-agency relationships which it might be better not to bring up at this time or for this purpose.

"We should like authority, however, to collect through the Reserve Banks similar statistics from lending agencies other than insured banks. All of these agencies could not report all the figures requested on the form, but it would be useful to have as much data as they can report. It is particularly important to obtain information regarding single-payment loans made by these agencies other than commercial banks in order to know to what extent they make such loans."

Approved unanimously.

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

"As requested in your letter of May 19, 1942, the Board's previous authorization of December 13 is extended to cover purchases of United States Government securities by your bank for the account of foreign governments."

Approved unanimously.

Letter to Mr. Irving A. J. Lawres, Secretary of the National Association of Supervisors of State Banks, New York, New York, reading as follows:

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"This is to acknowledge your letter of May 18, 1942 requesting a copy of the Board's statement opposing the three bills sponsored by the United States Savings and Loan League to which reference was made on page 4 of Washington Bank Trends for the week ending May 18, 1942. The statement in Washington Bank Trends apparently has reference to the bills S. 2146, 2147, and 2148 which would amend the Home Owners' Loan Act of 1933, Title IV of the National Housing Act, and the Federal Home Loan Bank Act.

"While the Board has not published a statement with regard to these bills, it addressed a letter to the Chairman of the Senate Banking and Currency Committee on April 13, 1942, expressing its views with regard to such bills. A copy of this letter is enclosed for your information. Since this letter refers to the Board's report on a previous bill (S. 4095 which was introduced in the last Congress), we are also enclosing for your information a copy of that report.

"It is assumed, of course, that you will not publish the Board's letter of April 13, 1942 unless it is released by the Senate Banking and Currency Committee through publication of any hearings on the bills S. 2146, 2147, and 2148, or otherwise."

Approved unanimously.

Memorandum dated May 23, 1942, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the June issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Consumer Credit

Interpretations of Regulation W

Reserves

Deductions for social security taxes as deposits

War Financing

Military, Naval and Maritime Commission appropriations

Limitations on national bank loans

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Foreign Funds Control
General rulings, public circulars and public interpretations issued by the Secretary of the Treasury

The memorandum stated that the statement on Military, Naval, and Maritime Commission appropriations should not be published in the June Bulletin unless the Independent Offices Appropriations Act referred to therein were signed by the President, and that the statement on limitations on national bank loans likewise should not be published unless the publication of the letter quoted therein from the Comptroller of the Currency were approved by that office.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

W. C. C. C.
Chairman.