

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 19, 1942, at 11:30 a.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 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 June 18, 1942, were approved unanimously.

Telegrams to Mr. Bilby, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Davis, Vice President of the Federal Reserve Bank of Philadelphia, Messrs. Hays and Dillard, Secretaries of the Federal Reserve Banks of Cleveland and Chicago, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, 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 June 16, by the Federal Reserve Banks of New York, Cleveland, Chicago, Kansas City, and San Francisco on June 18, 1942, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"This refers to your letter of June 8, 1942, inquiring whether the Federal law permits certain proposed changes in the capital structure of Washington County State Bank, Brenham, Texas.

"When the bank was admitted to membership on April 26, 1940, it had outstanding capital stock in the amount of \$50,000 and capital debentures held by the Reconstruction Finance Corporation in the amount of \$20,000. Subsequently, \$15,000 of the capital debentures have been retired, \$2,500 late in 1940, \$10,500 in 1941, and \$2,000 in May of this year. In the meantime, the bank's reserve for dividends payable in common stock, amounting to \$10,000 when the bank was admitted to membership, has been increased to \$20,000. You state that the State Banking Department of Texas has recommended that the bank retire the remaining \$5,000 of debentures and eliminate its reserve for dividends payable in common stock by transferring \$15,000 to surplus and \$5,000 to undivided profits.

"When the bank was admitted to membership, it was understood that the population of Brenham did not exceed 6,000 inhabitants. On this basis, the capital required for the organization of a national bank in Brenham was \$50,000 and, accordingly, a State bank in Brenham was eligible for admission to membership with a capital of that amount. However, when the 1940 Federal census figures became available, they showed that the population of Brenham had increased to 6435 inhabitants and, in the absence of proof to the contrary, it must be assumed that the population still exceeds 6,000 inhabitants, so that the capital required for the organization of a national bank in the town is \$100,000.

"The Federal law prohibits the reduction of the capital of a State member bank to an amount less than that required for the organization of a national bank in the place in which the bank is located (F.R.L.S. #3450). Where the capital of a State member bank already is less than that required for the organization of a national bank, any reduction is a reduction to an amount less than that so required and, thus, is prohibited.

"Accordingly, Washington County State Bank is not permitted to retire its remaining debentures without increasing

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"its capital stock in a like amount; and the retirements of debentures by the bank since the 1940 census figures became available, without like increases in the capital stock, have been contrary to the requirements of the Federal Law.

"After you have given the matter further consideration we shall be glad to have your comments and recommendations."

Approved unanimously.

Letter to Colonel John C. Mechem, Chief of the Miscellaneous Branch of the Fiscal Division, War Department, reading as follows:

"We have received from Mr. Rufus J. Trimble, Assistant General Counsel of the Federal Reserve Bank of New York, a letter enclosing copies of a form of loan agreement and a form of assignment of a Government contract for use in connection with loans guaranteed pursuant to Executive Order No. 9112. Copies of these forms are enclosed herewith. It is our understanding that these forms have been prepared by the Federal Reserve Bank of New York not with the idea of requiring their use in the case of all guaranteed loans but merely to have them available to give to financing institutions which may request the Reserve Bank to furnish them with forms which can be used for the purpose. Mr. Trimble has asked us to ascertain whether there is any objection on your part to the use of these forms.

"In connection with the provision of the loan agreement that interest at the rate of six per cent is to be charged by the financing institution if the borrower fails to make a required payment, we are calling Mr. Trimble's attention to the position recently taken by the Board with respect to a large guarantee that any interest rates charged on loans under Executive Order 9112 in excess of five per cent, whether after maturity or interest on interest or otherwise, will be regarded as a violation of the maximum rates established for this program.

"Mr. Trimble also points out that in some cases a bank may not wish to deliver a copy of a guarantee agreement to its borrower, and he suggests a paragraph, a copy of which is enclosed, for insertion in the loan agreement or in a letter to the borrower, the purpose of which is to apprise

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"him of his rights under the guarantee agreement. This paragraph sets forth Mr. Trimble's understanding of the terms of section 6 of the standard form of guarantee agreement, and he inquires whether the use of the paragraph would be satisfactory to you. In this connection, it may be said that we have reviewed the paragraph and feel that its provisions are largely the same in effect as those of section 6 of the guarantee agreement, but it is difficult to say that the rights of the parties as reflected in the paragraph are identical in every respect with the rights of the parties as reflected in section 6 of the agreement. Mr. Trimble points out that in the paragraph in question he has interpreted the provision in section 5 of the guarantee agreement that the amount '(a)' shall be based upon the date the written request from the financing institution for adjustment under section 5 is received by the Reserve Bank to mean, when '(a)' is used under section 6, the date when the written notice from the borrower that it desires an adjustment under section 6 is received by the financing institution. This is in accordance with our understanding of the intent of the guarantee agreement.

"We will be glad to have you advise us whether you have any objection to the use of the documents mentioned above by the Federal Reserve Bank of New York or make any comments that you may care to offer in this connection."

Approved unanimously, together with similar letters to Mr. Sidney A. Mitchell, Chief of the Finance Section of the Office of Procurement and Material, Navy Department, and the United States Maritime Commission.

Letter to Major Richard G. Croft, Acting Chief of the Advance Payment and Loan Section, War Department, reading as follows:

"We enclose herewith a copy of a letter dated May 29, 1942, received from the Federal Reserve Bank of Chicago, with its enclosure; a copy of our reply thereto; and a copy of a further letter dated June 12, 1942, from the Federal Reserve Bank, with its enclosure, raising certain questions under the standard form of guarantee agreement. You will note that the firm of attorneys which is raising

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"these questions requests an authoritative interpretation so that the Mercantile National Bank of Chicago, as a 'financing institution', may be advised in this matter.

"Accordingly, we will be pleased to have your office make any comments that you may desire in this connection, in order that we may pass them on to the Federal Reserve Bank of Chicago. We will be glad, if you desire, to confer with representatives of your office with reference to the interpretation of the provisions of the guarantee agreement concerning which question is raised."

Approved unanimously.

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

"This is in reply to your letter of June 8 relating to an inquiry that you received from the New England Home Equipment Company with respect to instalment sales of silverware and dinnerware.

"Under section 12(1) of Regulation W, any group of pieces of silverware or of dinnerware that are to be used together and that are sold or delivered at or about the same time, must be regarded as an 'article', and therefore would not be exempted by section 4(a)(3) from the down payment requirement unless the cash price of the entire group was \$6 or less.

"The Board is, therefore, in general agreement with your letter of June 8 to Mr. Dorfman, a copy of which you enclosed with your letter to the Board."

Approved unanimously.

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

"Reference is made to your letter of May 26, 1942, discussing the problem of the Humble Oil and Refining Company concerning the application of Regulation W to the use of credit cards.

"One of the principal problems of the company arises from the delay that must ensue between the date on which the customer makes a purchase from an outlying retailer

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"and the date on which the company is able to request and obtain payment. An additional problem, that may be even more important, arises from the difficulty of determining, when a customer requests credit for the purchase of a listed article, whether his charge account is in default. We have not heard of any satisfactory basis for the use of credit cards on sales of listed articles, and in view of the fact that the credit card system was primarily designed to cover sales of gasoline and oil and similar unlisted articles, we are inclined to believe that the most satisfactory solution of the oil companies' problem would be to confine the credit card system to such unlisted articles.

"With respect to the company's question relating to a customer having two accounts, some clarification of the meaning of 'charge account' and its application under the regulation would seem desirable. The regulation does not specifically prohibit a vendor from having different charge accounts 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."

Approved unanimously.

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

"This will acknowledge your letter of June 3 in which you discuss a question raised by department stores in the San Francisco area with respect to accounts carried for their employees.

"The Board agrees with your view that under the wording of section 2(c) of Regulation W, an account that is to be paid by two or more scheduled payroll deductions must be classed as an instalment account. The possibility of amending Regulation W with respect to instalment accounts of very short maturity is, however, being considered further."

Approved unanimously.

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

"This is in reply to your letter of June 6 relating to cases in which a retailer of listed articles having several stores maintains separate credit departments in each of the stores. The question arises whether the existence of a charge account in default at one of these stores will necessitate the application of section 5(b) of Regulation W to the customer's accounts at all of these stores.

"The Board is of the opinion that the term 'charge account', which is defined in section 2(g) of Regulation W as including all of the indebtedness arising from charge sales between the same seller and purchaser, includes as a single account all of the accounts of a given customer with the branches of the same retailer since the branches are not separate legal entities. Consequently, any default would necessitate the application of section 5(b) to all of these accounts.

"As a practical matter, it is recognized that this effect of Regulation W will result in a certain amount of inconvenience to the Registrants affected. It seems doubtful, however, whether this inconvenience would be so substantial as to justify the amendment of Regulation W in this respect."

Approved unanimously.

Telegram to Mr. C. L. Cobb, President of The Peoples National Bank, Rock Hill, South Carolina, reading as follows:

"Replying letter June 16. FHA loans within scope of Regulation W as revised May 6, 1942 must comply with its provisions unless excepted by section 8(e)."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. ...

Chairman.