

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, June 27, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak

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:

Memorandum dated June 27, 1942, from Mr. Nelson, Assistant Secretary, submitting the resignation of Mrs. Adelia G. Pyles as a charwoman in the Building Operation and Maintenance Section of the Secretary's Office, to become effective as of the close of business on June 30, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that The First State Bank of Larned, Larned, Kansas, became a member of the Federal Reserve System on June 26, 1942, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration

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"was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

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

"The Board has received several inquiries as to the responsibility of a Federal Reserve Bank for sending information concerning Regulation W to branch offices, located in its district, of Registrants which have their main offices in other Federal Reserve districts and which have themselves registered with the Federal Reserve Banks of those districts.

"It is our understanding that the Reserve Banks have not made a general practice of sending information to branch offices either within or without their districts but that in some cases a branch office has made a special request to the nearest Reserve Bank asking that it be put on that Bank's mailing list to facilitate prompt receipt of information. This flexible procedure seems to be working out satisfactorily and in accord with the wishes of the Registrants.

"A related but distinct question that has been raised is whether a Reserve Bank, in the case of any Registration Statement reporting branches in another Federal Reserve district, should send the Reserve Bank in that district a list of those that are located there. After considerable study of this matter, it has been decided to recommend that this be done -- because the Reserve Bank of the district in which the branches are located, being responsible for the enforcement of the regulation in that district, will wish to know about the credit outlets in its area.

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"This does not mean, of course, that any special mailing list of these branches need be maintained by any Reserve Bank."

Approved unanimously.

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

"The Board has received several requests for an amendment of section 5(f) of Regulation W -- which now permits the immediate delivery of an article costing \$5.00 or less to a customer 'in person' without the necessity of checking to determine whether the charge account is in default, provided certain conditions are met. The proposed amendment would apply the same rule to articles of like value which are not taken by the customer at the time of sale but which are sent to the customer by the usual method of delivery.

"Enclosed for your information is a copy of a memorandum prepared by a member of the staff discussing some of the factors involved in a change of this kind. The memorandum is a preliminary one, not prepared for quotation or submission to persons outside the System, but you are at liberty to use its contents for your own purposes.

"It is our tentative conclusion that no change should be made in the regulation at the present time but that we should continue to study the matter. We are influenced to some extent by the fact that, according to our present information and taking the country as a whole, no great amount of criticism seems to have developed. The proposed change, moreover, would put many more transactions into the 5(f) category, and it would seem to be well for us to learn how the provision works in practice before deciding to alter a requirement that may well be considered the basic element of the control. If we take opportunity to do this during the weeks following July 10, a decision to make the proposed change could still be made before the seasons of heaviest trade come around when the matter would be of most consequence to the stores.

"We should like to have you keep in touch with developments on this matter in your district, particularly after

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"July 10 when the restriction will become effective, and give us from time to time significant information that you may obtain or specific advice that you may wish to transmit."

Approved unanimously.

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

"This refers to your letter of June 11, asking several related questions under Regulation W.

"The Regulation does not prevent the conversion of a charge account into an instalment obligation with payments running in excess of 6 or 12 months if the Registrant does not intend, by this means, to cure the default so as to be able to grant further credit to the customer for listed articles. If the Registrant wishes to cure the default, he cannot do so except by one of the methods described in sub-section 5(d), and this means that if he converts the charge account into an instalment obligation with a maturity longer than that prescribed in clause (2) or clause (3) of that sub-section, the default will not be cured until the instalment agreement has been paid in full.

"As you point out in the last paragraph of your letter, these answers may mean that banks will be offered instalment notes with long maturities which they may not wish to purchase or discount without satisfying themselves that the terms do not violate the Regulation. However, this situation exists already; for example, the note referred to in the first paragraph of W-83 and a note of the kind referred to in the last paragraph of S-490 might have maturities which seemed excessive until explained."

Approved unanimously.

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

"In your letter of June 1, 1942, (your Inquiry No. 19) you suggested that S-456 be superseded by a new interpretation stating in effect that whenever Regulation W is amended,

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"any renewal or revision of an instalment credit originally extended prior to the amendment should not change the terms of the obligation to terms which would not have been permitted in the first instance under the Regulation in the form in effect at the time of the renewal or revision.

"This rule is applied in S-456 with respect to articles and classes of transaction added by amendment, in view of section 12(f), and your suggestion is that the same interpretation be given to section 10(a).

"As you have, of course, observed, the language of section 10(a) and of section 12(f) is different, and this difference in language is the basis for interpreting the two sections differently in S-456.

"The question whether there should be this difference in treatment was the subject of a good deal of thought and discussion, and although arguments were advanced on both sides, the following seemed to have the most weight. If a creditor knew that the maximum maturity of a revision was going to be cut down every time there is a general reduction in maturities for original contracts, there would be an incentive to make contracts at the maximum permissible maturity in all cases. Further, if it should be decided to lengthen maturities, the lengthening would automatically qualify a great many contracts for revision, and this would create pressure by obligors against creditors to lengthen their contracts. This would not only be objectionable to creditors, but it would complicate the Board's decision as to what relaxation should be permitted. Finally, although it can be argued that an obligor has no vested right in the maximum maturity provided by the Regulation at the time when his contract is made, there was some feeling that contracts might have been made with the expectation that they could later be revised in accordance with the existing terms of the Regulation."

Approved unanimously.

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

"Your wire June 13 regarding S-499. Payment of part of debt pursuant to agreement that such payment will satisfy the entire debt usually does not render the remainder of the debt legally uncollectable. However, the question

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"whether S-499 is applicable usually cannot be answered without knowing all the facts of the particular case."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of June 16, inquiring how automobile salesmen's demonstrator plan notes may now be renewed or revised in cases where the makers are still salesmen of new cars.

"If the contract was originally made for less than 12 months, the maturity may be extended to 12 months in view of section 10(a). In this connection see the second paragraph of S-456.

"If the Registrant accepts a Statement of Necessity in accordance with section 10(d) of the Regulation, the renewed obligation may provide for instalments running 12 months from the date of the renewal.

"Of course, if the note was originally made before September 1, 1941, it may be renewed in accordance with the principles stated in W-28."

Approved unanimously.

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

"Receipt is acknowledged of your letter of June 20, asking a question regarding Regulation W.

"The facts giving rise to the question are that a dealer sells an automobile to a customer and accepts a promissory note in payment. The note is a single-payment note with a maturity of 6 months and covers the full purchase price of the automobile. We assume that the purchase was made on or after May 6, 1942.

"Section 5(a) provides (with an exception not here material) that no listed article shall be sold in a charge account with an agreement that payment will be deferred beyond a certain period (which is shorter than 6 months). A charge account is defined as the indebtedness arising

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"from a charge sale, and a charge sale is defined as an extension of credit which is made by the seller and which arises out of the sale of an article. In view of these provisions, the note does not comply with the requirements of the Regulation, and a finance company which knew the facts could not purchase the note in view of section 3(a)(3).

"It is hoped that this will furnish you with the information requested in your letter, but if not, it goes without saying that we are always very glad to assist you in any way possible."

Approved unanimously.

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

"This refers to your letter of June 13, regarding the meaning of the phrase 'engaged in agriculture' as used in section 8(i) of Regulation W. The question is whether a person may be engaged in agriculture as one of several activities, or whether, in order to take advantage of section 8(i)(3), it is necessary that more than half of his income be derived from his agricultural activities.

"In connection with a previous inquiry, the Board took the position that a salaried worker who owns a farm and who borrows money for an agricultural purpose in connection with the farm, is entitled to the exemption of section 8(i), assuming, of course, the purpose of the loan is not to purchase a listed article. Accordingly, the answer to your question is that the borrower may be engaged in agriculture as one of several activities.

"Your second question is whether section 9(b), in referring to the obligor's income, means net income or gross income. This question has not previously been considered by the Board, and it would probably be desirable to defer a ruling until the specific facts of an actual case are presented."

Approved unanimously.

Letter to Honorable Robert F. Wagner, United States Senate, reading as follows:



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"Receipt is acknowledged of your communication of June 15, addressed to the Chairman, enclosing a letter addressed to you June 4 by Mr. Leslie N. Bruchs of New York on the subject of the Board's Regulation W governing consumer credit.

"Mr. Bruchs objects particularly to that feature of the regulation which deals with loans of less than \$1,500. He seems, however, to be under some misunderstanding since the regulation does not, as he indicates, require that a loan for \$1,500 or less which was outstanding on May 6, 1942 be amortized within a period of twelve months. It does require, in brief, that loans, other than instalment loans, of \$1,500 or less made on or after May 6, 1942 have maturities not exceeding 90 days. The pertinent requirements will be found in Section 7 of the regulation, a copy of which is enclosed.

"What we believe your constituent has in mind is a joint statement that was issued by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board, May 8, 1942, a copy of which is enclosed. This statement urges the special desirability under existing conditions of reducing outstanding individual debt through amortization of bank loans. It does not, however, require such amortization.

"He probably has also in mind the provision of Regulation W (Section 8(k)) which exempts policy loans by life insurance companies. That section, as it now stands, is intended primarily to take proper account of the fact that as a rule the right of a policyholder to borrow from his life insurance company is a right which he possesses by reason of the contract between the company and himself. This whole matter, however, is being re-examined as part of the continuing study of the regulation and its operations that is being carried on by the Board. As a part of this study your constituent's comments, together with a number of others that have been received from bankers and others, will be given careful consideration.

"The general purpose of the joint statement mentioned above, and of restrictions embodied in Regulation W upon the extension of consumer credit is to reduce over-all purchasing power, which at the present time is being greatly increased by general employment and increasing wage payments. Unless the demand resulting from this increased purchasing power can be dampened, its pressure upon the limited supply



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"of goods available for civilian consumption will produce inflationary price advances. This means increased cost of living so far as the public is concerned, and interference with war financing so far as the Government is concerned.

"We trust that this statement of the matter, together with the enclosures, will enable you to give your constituent the information he wishes to have. His letter is returned herewith."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. C. Cressler  
Chairman.