

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 2, 1942, at 3:00 p.m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Parry, Chief of the Division of  
Security Loans  
Mr. Dreibelbis, Assistant General Counsel

Mr. Ransom stated that there were nine and perhaps more stores of moderate to large size in the United States which before May 6, 1942, the effective date of Amendment No. 4 to Regulation W, had adopted, for the purpose of effecting economies in personnel and equipment, what is known as "cycle billing" in which their charge account customers were divided into alphabetical groups and each group was billed on a different day during the month. He said that while other stores which had not installed new equipment with the adoption of "cycle billing" or which had billed their accounts on the 25th or 26th of the month or on some date other than the last of the month had been able to adjust their procedures to billing as of the end of the month, the nine or more stores which had installed special equipment for "cycle billing" could not adapt their operations to the old method without adding personnel and new equipment, which were not now available. He also said that stores which had not adopted "cycle billing" were interested in it as something which they might later wish to adopt and for the further

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reason that they might be forced by war conditions to some system of staggered billing, and that in these circumstances the recommendation had been made to the Board that Regulation W be amended to provide that charge accounts maintained by "cycle-billing" stores would be in default if not paid before the 40th day following the billing date.

Mr. Ransom made the further statement that the matter had been discussed with representatives of trade associations, business machine manufacturers, and "cycle-billing" stores, that he and Mr. Szymczak and members of the staff had given it careful study and had prepared a draft of an amendment which would make the recommended concession to any registrant which on May 6, 1942, was using "cycle billing" and which had received from the Federal Reserve Bank of its district a notification which was still in effect that the Federal Reserve Bank was satisfied that it would be impracticable for the registrant to operate under section 5(c) of Regulation W or to change his system to one using the calendar month as the billing period.

One of the difficulties, Mr. Ransom said, was that "cycle billing" was widely used by public utilities which, in addition to selling their services, in many instances also sold listed articles; that there was some question whether the proposed amendment would make the privilege granted thereby available to these companies; that it was not intended that the amendment should be available to public utilities, and that, if it were found that it was broad enough to include them

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action could be taken by the Board to close that door.

In response to an inquiry from Mr. McKee whether the desired result could be obtained by an interpretation of the existing regulation, Mr. Ransom stated that that possibility had been thoroughly investigated but that the language of the regulation could not be so interpreted. He also said that consideration had been given to the desirability of making the concession granted by the amendment to all concerns that might adopt "cycle billing" after May 6, 1942, but that he felt that the present provision of the regulation that default would occur if the account were not paid by the 10th day of the second month following the sale had been very well accepted and was of considerable psychological value in effecting the retirement of consumer debt, and that he did not feel the benefits of that situation should be lost, at least at this time, by permitting the adoption on a broad scale of staggered billing dates. He made the further statement that the representatives of the Office of Price Administration were in agreement with this position but that he had not discussed the amendment with the other members of the consultative committee for the reason that he did not think the amendment was of sufficient importance to take it up with them.

Some of the members of the Board indicated a preference for an amendment which would encourage the adoption of "cycle billing" because of the economies which it would effect, and Mr. Ransom stated that such an amendment would create a demand for billing equipment

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that was not now available, that in discussions of the matter which he had had with representatives of the trade he had found no store that was not now using "cycle billing" that was interested in adopting it during the war period, and that until the trend in that direction was stronger he would prefer an amendment which would retain as much as possible of the psychological advantage resulting from the requirement that accounts be paid by the 10th of the second month following the sale. He added that he had an informal commitment from some of the equipment manufacturers that if the proposed amendment were adopted it would not be used by them as a basis for an advertising campaign on "cycle billing".

At the conclusion of the discussion, upon motion by Mr. Ransom the following amendment No. 5 to Regulation W was adopted by unanimous vote, effective immediately, with the understanding that it would be sent to the Federal Reserve Banks by wire with the request that they have it printed and make such distribution to interested persons in their respective districts as appeared to them to be desirable:

"Regulation W is hereby amended effective July 2, 1942, by adding the following new subsection at the end of section 12:

"(m) 'Cycle Billing'. - The provisions of the following paragraph shall be applicable, instead of the provisions of the opening paragraph of section 5(c), to any Registrant who (1) on May 6, 1942, was using a system of recording and billing his charge accounts whereby such accounts were divided into several groups and a different monthly closing date and monthly billing period was used for each such group, and (2) has received from the Federal Reserve Bank

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"of his district a notification which is still in force stating that the Federal Reserve Bank is satisfied (A) that such billing system makes it impracticable for him to operate under section 5(c) and (B) that it would be impracticable for him, in view of orders of the War Production Board restricting deliveries of office machinery, to change his system over to one that uses the calendar month as the billing period.

"A charge account maintained by such Registrant shall be deemed to be in default if any article (whether listed or unlisted) for which credit was extended in such account has not been paid for in full on or before the 40th day following the last day of the applicable monthly billing period during which such article was sold, except as provided in the three numbered paragraphs in section 5(c).

"With respect to any article sold in such a charge account, the maximum maturity shall be the period provided in the preceding paragraph instead of that provided in section 5(a)."

Mr. Ransom then stated that he had been advised that consideration was being given by the Office of Price Administration to authorizing merchants to charge a penalty rate of interest on charge accounts which were allowed to go in default, and that he had pointed out to representatives of that office that if that were done it would increase rather than decrease the total amount of credit outstanding in such accounts for the reason that merchants would be able to make a substantial profit from such charges. In a brief discussion of this matter all of the members present indicated that they would be opposed to such an arrangement and that in any discussions with the Office of Price Administration they would take that position.

At this point Messrs. Parry and Dreibelbis left the meeting,

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and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Executive Committee of the Federal Advisory Council held on July 1, 1942, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 1, 1942, were approved unanimously.

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

"For your information, in connection with the availability of United States Maritime Commission appropriations for carrying out the provisions of Executive Order Numbered 9112, the President, on June 27, 1942, signed the 'Independent Offices Appropriation Act, 1943' which contained the following provision:

'That the said construction fund shall be available for carrying out the provisions of Executive Order Numbered 9112 of March 26, 1942.'

The 'fund' referred to is the Construction Fund established by the Merchant Marine Act of 1936.

"In this connection, the Board's letter of April 24, 1942, called your attention to similar legislation relating to appropriations of the War and Navy Departments, and the Board's letter of June 12, 1942, called your attention to section 7 of the Murray Bill containing legislation along this line."

Approved unanimously.

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

"While we have not been asked to furnish information with respect to how amount of each guarantee fee or other charge is arrived at (average amount of loan outstanding, guarantee rate, etc.), it is requested that records of

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"Bank be so kept that in case such information is later called for by War Department, Navy Department, Maritime Commission, Treasury Department, or General Accounting Office it may be readily compiled."

Approved unanimously.

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

"There was forwarded to you a short time ago a copy of a letter from the Federal Reserve Bank of Cleveland, dated June 11, 1942, relating to the desirability of a special provision in the guarantee agreement in appropriate cases with reference to the amount of guarantee fees payable to the Government when the rate of interest payable after maturity is higher than the rate of interest payable before maturity.

"Enclosed herewith you will find a draft of a letter with an enclosure, which is suggested for your consideration in this connection. If such a letter meets with your approval, we will be glad, promptly upon its receipt, to forward a copy of it to the Federal Reserve Banks."

Approved unanimously, together with similar letters to the United States Maritime Commission and to Sidney A. Mitchell of the Navy Department.

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

"Item 5 in Group A, section 13(a) of Regulation W includes batteries and accessories for trucks and busses."

Approved unanimously.

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

"Receipt is acknowledged of your letter of June 26, enclosing a copy of a letter from Saks Fifth Avenue, Chicago, in which they raise a question regarding section 5(c)(2) of Regulation W.



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"Their letter states that 'during January of 1942, we advertised extensively in the Chicago newspapers, offering furs at extremely interesting prices, with the stipulation that purchases would be billed in October. These newspaper ads were supplemented by extensive direct by mail, including a special letter to a select list of customers. In all of this publicity, the October billing feature was very clearly stated. Substantial purchases resulted. Under the terms of the sale, items purchased were not charged to the customer's account, but are carried in a Deferred Fur Ledger, and are transferred out to the customer's charge account during October so that the bill is payable on or before November 10th.'

"These statements would indicate that there was an agreement, evidenced in writings which include the newspaper advertisements, that the article need not be paid for until a specified date; therefore, these sales are covered by the exception contained in section 5(c)(2).

"In the circumstances, it is not necessary to discuss the question whether there was in fact a sale in January, or merely a contract to sell at a future date."

Approved unanimously.

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

"Confirming your telephone conversation with Chase, if automobile is sold on or after May 6, Registrant may not accept a single-payment note for entire purchase price with maturity longer than that prescribed in section 5(a)."

Approved unanimously.

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

"With your letter of June 15 you enclosed a letter addressed to you, dated June 13, by Mr. Joseph Wolffson, who finds that the requirements of Regulation W are making it almost impossible for him to continue his modest business. We have read Mr. Wolffson's letter with interest



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"and sympathy, as you no doubt have done yourself. We wish very much that we had some constructive suggestion to make that would be helpful to him. It seems apparent to us, however, that he is one of those whom doubtless the President had in mind in his radio address of April 28 when he observed that while 'every single person in the United States is going to be affected by the war program some will be affected more than others.'

"As you know, we are receiving all the time complaints from individuals who in various ways are adversely affected by the regulation of consumer credit. Some merchants find their sales interfered with by the terms of the regulation while others complain that the restrictions do not go far enough to enable them to make their collections. Customers complain that they are being put under harsh pressure to pay up their accounts. It is apparent that if the regulation were modified so as to ease its effects wherever they are felt its whole purpose would soon be frustrated.

"Moreover, at the present time the complaint is made that the regulation is complicated; but this complication would be increased by making more and more exceptions in favor of those who find the requirements of the regulation bearing upon them too heavily. Moreover, these exceptions would in many cases, if not most, leave the situation unimproved. This is because the real source of the difficulties is not the regulation itself but the prevailing conditions which make the regulation necessary. For one thing, the increasing scarcity of goods and interruptions to delivery would interfere with sales even if there were no restrictions on credit terms. Furthermore, if we did not have in force effective measures for the prevention of inflationary price advances--of which Regulation W is one--an advance of prices would develop which would make it as hard for Mr. Wolffson's customers to buy as the Board's credit requirements do.

"In other words, the hardships entailed by Regulation W, like the sacrifices entailed by war itself, are intended to prevent hardships and sacrifices of greater magnitude. While these considerations may not give Mr. Wolffson any practical help in meeting his immediate problem, there may nevertheless be some comfort in the thought that present measures are necessary for the avoidance of worse conditions and the protection of the national interests in general."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. C. C. C.  
Chairman.