A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 6, 1942, at 11:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

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 July 3, 1942, were approved unanimously.

Memorandum dated July 1, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, William H. Seeger, Jr., be appointed on a temporary basis as an Assistant Federal Reserve Examiner, with salary at the rate of $1,500 per annum, and with official headquarters at Washington, D. C.

By unanimous vote, William H. Seeger, Jr., was appointed on a temporary basis as an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters

at Washington, D. C., and with salary at the rate of $1,500 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Memorandum dated July 2, 1942, from Mr. Morrill, recommending that Isaac A. Sayre be appointed to the position of guard in the Secretary's Office on a temporary basis for an indefinite period, with salary at the rate of $1,380 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated July 3, 1942, from Mr. Morrill, submitting the resignation of Mrs. Mildred F. Smith as a stenographer in the Secretary's Office, to become effective as of the close of business on July 16, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"The Board approves the payment of salaries for the following officers for the period ending May 31, 1943, at the rates fixed by your Board of Directors as submitted in your telegram of July 2, 1942:

Name:	Title	Annual Salary
Head Office:		
G. A. Gregory	Assistant Vice President	$6,600
E. U. Sherman	Assistant Cashier	4,500

"Name: (Cont'd)	Title	Annual Salary
Omaha Branch:		
O. P. Cordill	Cashier	$5,400
U. S. Berry	Assistant Cashier	3,600

"Please advise the Board as to the date the appointments are to become effective."

Approved unanimously.

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

"Retel July 2. In accordance with your recommendation Board extends for a period of six months from July 10, 1942, the time within which Monongahela Trust Company, Homestead, Pennsylvania, shall dispose of the stock which it holds in The Hays National Bank, Hays, Pennsylvania, or convert such bank into a branch of Monongahela Trust Company."

Approved unanimously.

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

"Reference is made to your letter of May 18 with which you enclosed a copy of your letter of the same date to Mr. Raymond Eller, Assistant Secretary of the Los Angeles Stock Exchange, giving Mr. Eller your opinion with respect to certain contemplated transactions involving stock of Pacific Finance Corporation of California.

"In a case in which a broker held Pacific Finance stock for the account of a customer, and knew that all of the conditions had been met so that such stock was definitely exchangeable within a reasonable time to other securities, the Board agrees with your opinion that such other securities may be sold for the customer in a general account, in which account the Pacific Finance stock is also carried, without any requirement of the additional 50 per cent margin which would otherwise be required in connection with a short sale.

"You also set forth an additional question relating to a case in which a broker's customer informs him that the customer has shares of Pacific Finance Corporation stock which he has sent for exchange and requests that the stocks to be received in exchange be sold prior to their receipt. This case involves the question whether such stocks to be received may be sold for the customer in a special cash account, under section 4(c) of Regulation T, prior to their receipt by the customer. The question whether any given securities in this sort of case may be regarded as 'owned' by the customer, for purposes of section 4(c)(1)(B) of Regulation T, is one which must be determined on the basis of an analysis of all the relevant facts of each individual case. Since, however, from the letter from Transamerica Corporation which you enclosed with your letter of May 18, it appears that actual certificates for the stock to be received in exchange for Pacific Finance stock were to be transferred to the name of the exchanging stock holder (and hence presumably to be delivered to him) prior to June 1, it would appear that this question with respect to exchanges of Pacific Finance Corporation stock has become moot, and there is therefore no need of further exploration of the facts of this particular case. If, however, this conclusion is wrong, and a decision in the matter is still needed, will you kindly notify us?"

Approved unanimously.

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

"Board has been asked whether under Regulation W a Registrant may make an instalment loan with a maturity of twelve months to retire a charge account arising in whole or in part from the sale of a listed article, if the Registrant accepts a Statement of Necessity in accordance with the provisions of section 10(d). The answer to this question is that the loan may have a maximum maturity of twelve months from the date of the loan whether or not the charge account was in default under the provisions of section 5(c).

"Board has also received an inquiry as to the maximum maturity of a single-payment loan to retire a charge account. Such a loan must of course have a maturity not in

"excess of 90 days, but, if a Statement of Necessity is taken from the obligor when the loan matures, the Registrant may renew the entire amount on an instalment basis under section 7(c)(1) for as long as twelve months from the date of renewal, or the Registrant may make extensions in the manner provided in section 7(c)(2) if the maturity of the last single-payment obligation is not later than twelve months from the date of the first one. See footnote 5."

Approved unanimously.

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

"This refers to the Board's letter of May 28, 1942 (S-496) with regard to the program for enforcement of Regulation W. In this connection, the Board has been advised by the Federal Deposit Insurance Corporation and the Comptroller under dates of June 29 and 30, 1942, respectively, that the two agencies will cooperate in the enforcement program along the lines suggested in the Board's letters to these two agencies dated June 12, 1942, of which copies are enclosed."

Approved unanimously.

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

"Your letter of May 23 contains several inquiries regarding Regulation W. Those which have not already been answered are discussed below.

"One of your questions relates to a 'fur coat sold in June with the understanding that the coat would be delivered in November' and would be billed to the customer at the time of delivery. During the interim the item is to be carried in a so-called memorandum account.

"The question is whether this amounts to an agreement to defer payment for a longer period than permitted by the Regulation, but the answer depends upon whether the coat was 'sold' in June or is to be sold in November. It is not possible to give an answer which would be applicable to all cases because the facts will differ, but in some cases, as a legal matter, the coat would not be 'sold'

"until November and the transaction in June would merely be a contract to make a sale at a future date. In that event, the transaction would not violate Regulation W since the article would be charged to the customer's account promptly at the time of the sale. On the other hand, if the coat is 'sold' in June (so that title passes to the customer, and the Federal tax is due on the sale) an agreement to delay payment until November or later would violate the Regulation.

"Of course, no matter when title passes to the customer, the Registrant may always take advantage of section 12(d) relating to 'Lay-away' Plans. Under the conditions therein described, he may treat the extension of credit as not having been made until the date of delivery.

"You also inquire as to the sale of furniture which is made to order and the item is carried in a memorandum account until the article is ready for delivery, at which time the charge is made to the customer's regular charge account. You feel that such a transaction involves a bona fide delayed delivery and that the article need not be regarded as 'sold' within the meaning of section 5(c) until the article is ready for delivery.

"It is not possible to sell something which is not yet in existence, and the transaction is, therefore, merely a contract to make a sale at a future date. Accordingly, the Board agrees with your conclusion.

"For the same reason, the Board believes that the same result should follow even if the cost of the furniture is charged to the customer's regular charge account at the time the order is taken, since the difference is merely in the form of the bookkeeping entry. In such a case if the account is in default on the date when the furniture is ready for delivery, the seller could not make delivery unless the furniture were paid for in full on or before delivery, or unless the default were cured.

"Your other inquiries relate to materials used in connection with repairs, improvements and alterations of residential property. In some cases a specific list of materials is decided upon, and these materials are delivered when called for over a period of time as the job progresses. In other cases, the exact requirements are not known and the materials are ordered and delivered as the job progresses.

"The answers will depend upon the rights of the parties as fixed by their contracts. If the articles are sold

"to the contractor, the sales are exempt under section 8(f). See also W-43. On the other hand, if the sales are made directly to the property owner and not to the contractor, it is probable that there would be a series of sales which would take place on the several delivery dates."

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 section 5 of Regulation W.

"The question relates to a charge account which was in default but which has been cured by converting it into an instalment obligation pursuant to section 5(d)(2) or 5(d)(3). Subsequently, it develops that the customer is unable to carry out this obligation, although he is able to meet payments in connection with current purchases. You ask whether the dealer is prohibited from extending credit in connection with the current purchases.

"If the written agreement converting the defaulted charge account into an instalment obligation is entered into in good faith, the Regulation does not prohibit the dealer from extending credit in connection with the additional charge sales. However, 'good faith' in this connection would undoubtedly mean, among other things, that the customer, at the time of entering into the agreement, expected to be able to carry it out. If the agreement were entered into merely as a means of avoiding the conclusion stated in S-499, with the expectation that the old account would not be paid, the agreement would not be in good faith within the meaning of sections 5(d)(2) and 5(d)(3). Moreover, transactions in sufficient number to indicate a practice, might be evidence of an implied agreement with the customers which would negative such good faith."

Approved unanimously.

Letter prepared for the signature of Vice Chairman Ransom to Honorable F. J. Bailey, Assistant Director of the Bureau of the Budget, reading as follows:

"In the absence of Honorable Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, I am writing this in response to the letter which you addressed to him under date of July 3, 1942, requesting advice as to whether there is any objection to approval by the President of S. 2565, an Act to amend sections 12A and 19 of the Federal Reserve Act, as amended.

"The enactment of this bill was recommended by the Board of Governors of the Federal Reserve System after clearance with your office, the Treasury Department, and other agencies of the Government, and the bill passed both Houses of Congress in exactly the form in which it was recommended. Therefore, it is recommended that the bill be approved by the President.

"It is not anticipated that the enactment of this bill will result in any cost to the Government."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Vice Chairman.