A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 9, 1942, at 11:00 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 8, 1942, were approved unanimously.

Memorandum dated July 7, 1942, from Mr. Morrill, recommending that Miss Betty Jane Stewart be appointed as a stenographer in the Secretary's Office, with salary at the rate of $1,680 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated July 8, 1942, from Mr. Morrill, recommending that Miss Mary Louise Oddsson be appointed as a stenographer in the Secretary's Office, with salary at the rate of $1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated July 7, 1942, from Mr. Morrill, submitting the resignation of Paul C. Whitley as an elevator operator in the Secretary's Office, to become effective as of the close of business on July 7, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

> "In accordance with the request contained in your letter of July 3, 1942, the Board approves the appointment of Roy E. Cederval as an assistant examiner for the Federal Reserve Bank of Boston. Please advise us of the date upon which this appointment becomes effective."

Approved unanimously.

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

> "As requested in your letter of July 3, 1942, the Board of Governors approves the increase in the salary of J. Frank Rehfuss, Alternate Assistant Federal Reserve Agent, from $4,800 to $5,000 per annum, effective July 1, 1942.
>
> "It is understood that Mr. Rehfuss' duties as Alternate Assistant Federal Reserve Agent are slight and were not considered in connection with the proposed increase in salary which was based entirely upon his work as Manager of the Department of Research and Statistics."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of July 3, the Board approves the appointment of George I. Baggott as an examiner for the Federal Reserve Bank of St. Louis, effective August 1, 1942. Since it is contemplated that his services will be utilized by the Bank Examination Department for a part of the time in the interim, the Board approves his designation as a special examiner during the period ending July 31.

"The Board approves also the appointment of Bertram Lee Chapman as an examiner for the Federal Reserve Bank of St. Louis. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Honorable Burton K. Wheeler, United States Senate, reading as follows:

"This refers to your letter of July 2, 1942 enclosing a further request from Mr. P. B. Moss of the Billings Utility Company for a copy of the report of the examiner who made an investigation in connection with an application for a loan submitted by the Billings Utility Company to the Federal Reserve Bank of Minneapolis. An earlier request for this report was made by Mr. Moss and was submitted to the Board in your letter of April 28, 1942. Under date of May 20, 1942, the Board advised that it did not feel that it should comply with Mr. Moss' request.

"When the Board received Mr. Moss' earlier request, it gave careful consideration to the matter and consulted with the President and Counsel for the Federal Reserve Bank of Minneapolis, the institution with which Mr. Moss is now engaged in litigation. In view of our feeling that the report is of a confidential credit nature, in view of the fact that if the report is not considered to be of a confidential and privileged nature Mr. Moss can obtain a copy of it through appropriate court process in connection with the suit he has filed against the Federal Reserve Bank, and also in view of the fact that one court already has held that Mr. Moss does not have a cause of action against the Federal Reserve Bank, neither the Federal Reserve Bank nor the Board feel that a copy of the report should be furnished to Mr. Moss. In his second request, Mr. Moss has not submitted any new or additional reasons why he should be furnished with a copy of the report and for the reasons indicated above, which were more fully discussed in our letter to you of May 20, 1942, we still do not feel that we should furnish him with a copy

"of the report. While we regret that it seems necessary to refuse Mr. Moss' request, it seems to the Board that it is the only position that it can properly take in all the circumstances.

"The letter which Mr. Moss addressed to you is returned herewith."

Approved unanimously, together with a similar letter to Senator James E. Murray.

Letter to "The Lincoln County National Bank of Stanford", Stanford, Kentucky, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kentucky, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preperation of a formal certificate covering such authorization, which will be forwarded to you in due course.

"It has been noted that your bank contemplates succeeding by appointment to the trust accounts now handled by the affiliated Lincoln Trust Company, Stanford, Kentucky, which is to be placed in liquidation. The Board's approval of your application is based, among other things, on assurances given to representatives of the Federal Reserve Bank of Cleveland that such trust accounts would be accepted only following the filing by the Trust Company of a final accounting and a review by the court in each case, and that your bank will assume no responsibility for the acts of its predecessor. It has been noted also that the records maintained by the Lincoln Trust Company were not regarded as entirely satisfactory. The Board wishes to emphasize the importance of installing and maintaining adequate trust records in order that evidence may be available at all times that the responsibilities assumed by the bank have been properly discharged."

Approved unanimously.

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

"This refers to your letter of June 18 regarding a question under Regulation W presented to you by Mr. R. E. Messinger, Assistant Treasurer of The Toledo Trust Company.

"The question is whether a borrower who has executed a thirty-day single-payment note may renew it for another sixty days.

"Mr. Messinger suggests that he should be allowed to renew it, for two reasons. He could have made it for ninety days in the first instance. Furthermore, section 10(a) permits the renewal or revision of instalment loans on any terms which would have been permitted 'in the first instance', and a similar rule should be applied with respect to a thirty-day single-payment loan under section 7.

"When the Revision of May 6 was being prepared, some thought was given to making a provision such as Mr. Messinger suggests in section 7. However, the provision was not made, and the provisions covering the renewal or extension of a single-payment note are those contained in section 7(c). These provisions apply irrespective of whether the loan was originally made for the full ninety-day period permitted by section 7(b).

"Accordingly, the Board agrees with the advice which you have given Mr. Messinger, which is to the effect that the loan may be renewed or extended under section 7(c)(1) or section 7(c)(2), and that under the latter section a proportionate reduction must be made at the time of renewal."

Approved unanimously.

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

"Your letter June 13 regarding Investor's Syndicate. Board agrees with opinions stated in third, fourth, fifth and sixth paragraphs (relating to loans by Investor's Syndicate companies on certificates issued by them) of Mr. Ueland's letter of June 2 to you."

Approved unanimously.

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

"Your letter of June 27 contained 8 questions under Regulation W. These questions are discussed below.

"1. A person who makes extensions of credit exclusively of the kind excepted under section 8 is not required to register under section 3, because the Regulation does 'not apply' to such loans.

"2. Unless the articles form a set or group as described in section 12(1), no down payment is required in connection with the purchase of several articles each costing $6 or less. This question is referred to, but not specifically answered, in S-500.

"3. An instalment agreement converting a charge account, either before or after default, may have a 6 months' maturity, and since it is an 'instalment credit', it is entitled to the 15-day option under section 12(c).

"4. If the charge account of a farmer is in default, a further extension of credit granted to him pursuant to a Statement of Necessity may have the adjustments allowed by section 9(b), since such adjustments are permitted 'notwithstanding any other provision of this Regulation'.

"5. Sections 5(d)(2), 5(d)(3) and 5(e) refer to 'substantially equal' instalments, but this does not preclude instalments in decreasing amounts. The question is analogous to that discussed in S-479.

"6. A 6 months' instalment loan to retire a charge account to purchase a listed article may be for the full amount of the account, since the loan is not 'to be used to purchase' a listed article.

"7. A bank may make a single-payment loan to retire a 6 months' balance on an instalment loan subject to the Regulation. The maturity of the loan is limited to ninety days by section 7, but the amount of the loan is not limited by section 7(a) since the purpose of the loan is not to purchase an article.

"8. A loan to a doctor, dentist or other professional man to pay office rent, office help, purchase professional books, etc., would qualify as a business loan under section 8(j)."

Approved unanimously.

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

"This refers to your letter of June 16, 1942, regarding the effect of Regulation W upon the 'credit cards' issued by the Phillips Petroleum Company.

"Your letter states that the Company has some 22,000 agents located throughout the United States operating service stations, and that the Company sells products to these agents on a 30 to 90 day basis, prompt payment being required even though the agent may not have made resale to his customers. An agreement between the Company and each agent provides that the Company will purchase the accounts arising from the credit sale of gasoline, oil, tires, batteries, etc., by the agent to customers holding credit cards. A representative of the Company has informed you definitely that the 'seller' of the merchandise is the agent and not the Phillips Petroleum Company, and that the Company is only the purchaser of the open accounts originating from sales by the agent.

"You say that it is the opinion of the Company that if merchandise is not paid for within the time prescribed, the purchaser would be prohibited from purchasing on credit any of the articles listed in section 13 of the Regulation from the agent where the credit originated, but would not be prohibited from purchasing such articles on credit from any other agent, even though Phillips Petroleum Company would purchase the credits from both of the agents. You state, further, that you have informed the representative of the Company that you are inclined to agree with this view but that the question is being referred to the Board.

"The Board agrees with the view outlined above since the agent is the seller of the merchandise. The Company, in purchasing the account, is in no different position from a bank or other financing institution which discounts an obligation. As a practical matter, however, the seller would not know whether an item of merchandise sold by him was paid for within the time prescribed in the Regulation unless the Phillips Petroleum Company were to notify him that the holder of the credit card had not paid the bill sold to the Company. Of course, this difficulty is similar to the one undoubtedly considered by the Company before initiating the credit card plan since there would always be the possibility that a customer would not pay his bill but would continue to use the credit card in purchasing merchandise from the service station operators."

Approved unanimously.

Letter to Mr. George F. Benkhart, Vice President of General Motors Acceptance Corporation, New York, New York, reading as follows:

"This refers to your letters of June 1 and June 3, 1942, to Mr. Dembitz, regarding the effect of Regulation W upon your Credit Service Plan pursuant to which your Corporation enters into an agreement with General Motors dealers to purchase, subject to discount at a specified rate, their accounts receivable resulting from credit sales to customers to whom your Corporation has issued GMAC Credit Identification Cards. You state that since the May 6, 1942, revision of the Regulation the credit cards have excluded the purchase of listed articles.

"The sample forms which you enclosed with your second letter show that in the normal case, the accounts are purchased by your Corporation without recourse against the dealer, but, although not entirely clear, it seems that the customer remains indebted to the dealer. If this is true, and, since the dealer is the seller, the answer to your first question is that the dealer is the Registrant under section 5(b), your Corporation merely purchasing or rediscounting the obligation in much the same manner as would a bank or other financing institution.

"With respect to your second question, your Corporation, from its records, presumably would know whether a customer's account with a dealer was in default and, therefore, the purchase from such dealer of an instalment sale contract covering a listed article sold to the defaulting customer would be a violation by your Corporation, not of section 5(b), but of section 3(a)(3). Of course, section 5(b) would not prevent your Corporation from purchasing such an instalment sale contract from a different dealer.

"As stated in section 5(b), when a charge account is in default, the seller cannot extend credit to the customer in connection with the sale of a listed article either in a charge account or on an instalment basis. This, of course, may present a practical difficulty in that the dealer may not know whether the customer has paid your Corporation for previous purchases within the time prescribed unless your Corporation notifies the dealers of the accounts which are in default. The Regulation, however, does not specifically require such notification."

Approved unanimously.

Letter to Mr. R. H. Stout, President of the Morris Plan Bankers Association, Washington, D. C., reading as follows:

"This refers to your letter of June 22 asking whether a charge account which has been converted into an instalment credit may be retired by a lender through an instalment loan running for a 12-month period if the lender accepts a Statement of Necessity from the borrower.

"This question has been received from several sources, and the Board has now replied that the loan may have a maximum maturity of 12 months from the date of the loan whether or not the charge account was in default under the provisions of section 5(c).

"The administration of the Regulation, as you know, has been decentralized, and, therefore, it will be appreciated if you will address future requests for interpretations of the provisions of the Regulation to the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to Mr. Irvin Wesley, Vice President of The Lincoln Loan Corporation, Indianapolis, Indiana, reading as follows:

"This refers to your letter of July 1 regarding a question raised by Mr. Newton under Regulation W. The question is whether Option 2 in section 10(b) can be used to effect a consolidation of debt if the lender is merely taking over several outstanding obligations, and is not advancing any new money to the borrower.

"Section 10(b) is designated 'Additions to Outstanding Credit Held by Registrant', but Option 1 and Option 2 may be used even if there is no new money, because literal compliance with the terms of the section could be accomplished merely by taking over one of the obligations and immediately thereafter taking over the others.

"In such a case, the use of Option 1 would be equivalent to transferring all of the obligations to one Registrant without changing the terms of repayment; and Option 2 would not permit any easier terms, in view of clause (i).

"If this does not give you the information you desire, please let us hear from you further."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:
Ronald Ransom
Vice Chairman.