

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 24, 1942, at 11:30 a.m.

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

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 July 23, 1942, were approved unanimously.

Telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, 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 Banks of St. Louis and San Francisco on July 21, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, Minneapolis, and Dallas on July 23, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Bond in the amount of \$10,000, executed under date of July 16, 1942, by John A. Boyd as Federal Reserve Agent's Representative at the Federal Reserve Bank of Dallas.

Approved unanimously, together with a letter to The Hartford Accident and Indemnity Company, Hartford, Connecticut, reading as follows:

"This refers to the bond executed on July 16, 1942, by the Hartford Accident and Indemnity Company, Hartford, Connecticut, covering Mr. John Armstrong Boyd as an Assistant to the Federal Reserve Agent at the Federal Reserve Bank of Dallas, with the title Federal Reserve Agent's Representative.

"Under the law, it is the practice of the Federal Reserve Agents at the various Federal Reserve Banks to appoint Assistants to the Federal Reserve Agents subject to the approval of the Board of Governors of the Federal Reserve System, and you will note that the bond executed by Mr. Boyd contains a recital that his appointment in the capacity described was made by the Federal Reserve Agent at the Federal Reserve Bank of Dallas. However, at the present time, the Federal Reserve Agent at the Federal Reserve Bank of Dallas is on active military duty and the appointment of Mr. Boyd in such capacity was made by the Assistant Federal Reserve Agent at that bank and approved by the Board of Governors. The Board of Governors, therefore, has approved the bond referred to above, with the understanding that the recital contained therein with reference to the appointment of Mr. Boyd covers his appointment as described in this letter, and that, in the light of these facts, the description of such appointment as contained in the bond is acceptable to the Hartford Accident and Indemnity Company. It will be appreciated if you will furnish the Board of Governors with a confirmation of this understanding."

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

"In accordance with the request contained in your letter of July 20, 1942, the Board approves the designation of James S. Buster as a special assistant examiner."

Approved unanimously.

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

"Reference is made to Mr. Diercks' letter of July 16, 1942, in regard to the exercise of trust powers by 'The Commercial Savings Bank', Lohrville, Iowa, without first having obtained permission of the Board, in accordance with the so-called general condition of membership, which requires that except with the permission of the Board there shall be no change in the general character of its business or in the scope of the corporate powers exercised by it at the time of its admission to membership.

"It is understood that the bank is administering one small trusteeship, which was accepted without realizing the applicability of the condition of membership in question; that the account is one which can be administered without undue risk, and that the bank does not desire to extend the scope of its fiduciary activities. In the circumstances, the Board will raise no objection to the bank's administering the one trusteeship it now holds, with the understanding that it will not acquire any other fiduciary business without first obtaining the permission of the Board. Please advise the bank accordingly."

Approved unanimously.

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

"The Board has received a number of inquiries regarding a type of transaction which is not specifically covered either by W-71 or by W-101 in which the seller takes back an article which is not defective but which for some reason is unsatisfactory to the customer, and allows the full original purchase price as a credit against the purchase price of a new article of the same type. The price of the new article is often higher than the price of the first article. The exchange usually occurs within a very short time after the original sale, and is made in good faith pursuant to an express or implied guarantee of satisfaction given in connection with the original sale.

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"The Board is of the opinion that, under these circumstances, if the seller allows the full original purchase price as a credit against the price of the new article, the transaction need not be treated as a trade-in (as described in W-71) and any payments made on account of the original sale may be credited against the down payment required on the new article.

"Of course, if the price of the new article were in any manner inflated to take care of depreciation in the original article, the transaction would be an attempt to evade the down payment requirement and would not be permissible. Any long delay between the original sale and the date of the exchange might likewise lay the transaction open to suspicion as an attempt to evade."

Approved unanimously.

Letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"The Board's letter of July 13 to you, in discussing W-112, failed to mention one point which you raised in connection with that Interpretation: you referred to a case where the prospective purchaser had the unconditional right to return the article 'if not damaged'.

"It is our understanding that in most jurisdictions the risk of accidental loss or damage would rest with the seller in a case of the kind discussed in the second part of W-112, because title to the property had not passed, and that the prospective purchaser would be responsible only for loss or damage resulting from his own wilful or negligent acts.

"If the risk of accidental loss or damage were on the buyer, it would seem that the transaction would not be one of the kind described in the second part of W-112, but would be a sale with a right to rescind.

"You undoubtedly had these distinctions in mind, but it seemed desirable to clarify our letter of July 13 to you."

Approved unanimously.

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

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"Mr. J. Gordon Dakins, Educational Director, National Retail Credit Association, 1218 Olive Street, Saint Louis, Missouri, sent to Mr. Parry with his letter of July 14 a manuscript of 'The Layman's Handbook of Regulation W' and asked for comments.

"There are enclosed some notes made by a member of the Board's staff regarding the manuscript and it will be appreciated if you will have them delivered to Mr. Dakins.

"These notes were prepared in an effort to be helpful, and although we believe they are reasonably complete and accurate, they have not been submitted to the Board and are not official in any way. Accordingly, please advise Mr. Dakins that we would prefer that no mention be made of the Board or of its staff or of the Federal Reserve Bank of St. Louis in the foreword to the Handbook."

Approved unanimously.

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

"In your letter of July 15, 1942, you indicate that you have expressed the opinion that Regulation W does not prohibit (1) a transaction in which a purchaser of a listed article makes a contract for monthly payments until the required down payment is accumulated, whereupon such payments are applied as the down payment, the article is delivered and an instalment contract complying with the Regulation is made for payment of the deferred balance in 12 months; and, (2) a transaction similar to the first except that only one contract is made covering both the accumulation of the down payment, before delivery, and the instalment payment of the deferred balance in 12 months.

"The Board agrees with you that these transactions do not violate the Regulation. Section 12(d) relating to 'lay-away' plans does not specify a precise manner for payments during the lay-away interval but merely provides that the Registrant may treat the extension of credit as not having been made until the date of delivery of the article. In both cases presented by you, the down payment would be received before delivery and the credit extended on the date of delivery would not exceed the period allowed by the Regulation.

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"The Board also agrees with your view that a bank may purchase or discount the two contracts in the first transaction and the single contract in the second transaction since the obligations, as just indicated, comply with the requirements of the Regulation."

Approved unanimously.

Telegram to Mr. Shepherd, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"Retel July 22, since question of paying out notes of the 1928 series has been taken up with Treasury Department, it is suggested that no new notes of that series be placed in circulation unless and until you hear further from Board."

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Moriep
Secretary.

Approved:

W. S. [Signature]
Chairman.