

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 7, 1942, at 11:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Parry, Chief of the Division of Security Loans  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Cagle, Assistant Chief of the Division of Examinations

There were presented telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Davis, Vice President of the Federal Reserve Bank of Philadelphia, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Olson, Assistant Secretary of the Federal Reserve Bank of Chicago, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. West, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank

8/7/42

-2-

of San Francisco on August 4, by the Federal Reserve Bank of Atlanta on August 5, by the Federal Reserve Banks of New York, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco on August 6, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a memorandum dated July 28, 1942, from Mr. Vest calling attention to two bills recently introduced in Congress to exempt certain real estate from taxation in the District of Columbia and discussing the possible effect of the passage of these bills on the position of the Board with respect to the taxation of the Board's building by the District of Columbia. The matter was discussed briefly, and there was unanimous agreement that no action need be taken by the Board at this time.

Before this meeting each of the members of the Board had been furnished with a copy of a letter dated July 28, 1942, from George J. Knox, Superintendent of Banking of the State of California, setting forth in detail the reasons for the request contained in the letter that the Board reconsider the policy which was the basis for its decision not to approve the application of the First Trust and Savings Bank of Pasadena, California, for permission to establish branches of that bank at Alhambra and Temple City, California.

At the suggestion of Mr. McKee, it was agreed that representatives of the legal and examination divisions of the Board should collaborate with the Federal Deposit Insurance Corporation on the preparation of a reply to Mr. Knox's letter which would contain a statement setting forth the position of the two

8/7/42

-3-

agencies with respect to the policy that under existing conditions the Federal bank supervisory agencies should decline permission for the acquisition, directly or indirectly, of any additional banking offices or any substantial interest therein by Transamerica Corporation, Bank of America National Trust and Savings Association, or any other unit of the Transamerica group.

During the consideration of the above matter, Mr. Thurston, Special Assistant to the Chairman, joined the meeting.

Mr. Ransom referred to the action taken by the Board on February 9, 1937, in amending Regulation Q, Payment of Interest on Deposits, to eliminate from the regulation the definition of the term "interest" and to provide merely that any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit would be considered interest. This action was taken, Mr. Ransom said, in the light of problems which had arisen by reason of the difference between the definition of "interest" as contained in Regulation Q and the regulation of the Federal Deposit Insurance Corporation with specific reference to the absorption of exchange and collection charges by member banks and insured nonmember banks. In the circumstances, it was believed desirable at that time to bring the two regulations into uniformity on the basis of a declaration of the law and, for reasons which were published in the Board's policy record, to defer a specific determination of the question whether the absorption of exchange and collection charges would constitute the payment of interest, at least until some clear necessity therefor should arise in due course through

8/7/42

-4-

the presentation of a particular case, with all the facts required for a carefully considered decision. Mr. Ransom also said that since the amendment of Regulation Q he and Mr. McKee had discussed from time to time the problems which were presented by the regulation in its present form, that the Board had discussed specific cases in which the question of compliance with the regulation was presented, that these problems still confronted the Board, and that he believed the time had come when it would be advisable for the Board again to review the matter in the light of the current situation and determine what action might be called for. With this in mind, Mr. Ransom then read the following draft of letter to the Presidents of all the Federal Reserve Banks, and stated that, if the Board were willing to approve the letter, it would be his suggestion that either before or after the receipt of the Presidents' replies a conference be arranged with (1) the Chairman of the Federal Deposit Insurance Corporation for the purpose of determining his attitude on the matter at the present time and (2), if thought desirable, with the Chairmen of the Banking and Currency Committees of the House and Senate and Congressman Doughton, who are familiar with the problem with which the Board is confronted.

"You are familiar with the history of the provision in Regulation Q which bears upon the perplexing problem of absorption of exchange and collection charges by member banks.

"From time to time there has been brought to the attention of the Board the fact that there are banks which have continued the practice and that there are other banks which, though reluctant to do so, are confronted with the question whether they can meet the competitive situation without adopting the practice.

8/7/42

-5-

"The Board feels that it should review its position with respect to this provision of Regulation Q and as an aid to its consideration of the matter would like to have the benefit of your views and suggestions, together with any information that you may have that has influenced your conclusions on the subject.

"We would like to receive your reply on or before August 24, if you can conveniently send it to us by that time."

Mr. Ransom referred to the letter received from Deputy Comptroller of the Currency Upham under date of July 31, 1942, which reviewed the correspondence between the Board and the Office of the Comptroller with respect to the absorption of exchange and collection charges by the National Bank of Commerce of Lincoln, Nebraska, discussed the circumstances in which the same question had arisen in connection with banks in Omaha, Nebraska, and urged upon the Board the desirability of a prompt ruling as to whether the practices referred to in the letter constituted a violation of Regulation Q.

After a discussion of the action that the Board might take if the Federal Deposit Insurance Corporation were still unwilling on the basis of the present law to adopt an amendment to its regulation which would expressly prohibit as a payment of interest the absorption of exchange and collection charges, and it was still felt that it would be inadvisable to attempt to get an amendment to the law which the Federal Deposit Insurance Corporation would regard as a satisfactory basis for uniform regulations by the Board and the Corporation prohibiting the absorption of exchange and collection charges, the letter proposed by Mr. Ransom to be sent to the Presidents of the Federal Reserve Banks was approved unanimously.

8/7/42

-6-

At this point, Messrs. Paulger and Cagle left the meeting.

At Mr. Ransom's request, Mr. Thomas presented three charts showing the downward trend of consumer credit since the date of the adoption of Regulation W, and Mr. Ransom stated that, while the estimates on which the charts were based were not entirely reliable, they were sufficient to indicate what the trend was, and that representatives of the Office of Price Administration were inclined to feel that the objectives of Regulation W, as amended effective April 6, 1942, were being achieved. Mr. Ransom went on to say that the next thing the Board would have to consider, and on which preliminary studies had been made, was the question of the regulation of residential mortgage loans. He said that this would require an amendment to the Executive Order under which Regulation W was issued, and that he was planning to present to the Board not later than August 19, 1942, a draft of a plan of action that might be taken by the Board in this field.

At this point, Messrs. Thurston, Wyatt, Smead, Parry, Dreibelbis, Vest, and Thomas left the meeting, 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 held on August 6, 1942, were approved unanimously.

Memorandum dated August 5, 1942, from Mr. Morrill, recommending that Miss Mary Welsh be appointed as a clerk in the accounting section of the Secretary's Office on a temporary basis for an indefinite period,

8/7/42

-7-

with salary at the rate of \$1,500 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 August 1, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that Mrs. Marie Anne Harding be appointed as a stenographer in that Division on a temporary basis for a period of not to exceed 90 days, with salary at the rate of \$5.00 per day for each working day, 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 August 3, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that Miss Barbara Jane Ewen be appointed as a stenographer in that Division on a temporary basis for a period of not to exceed 90 days, with salary at the rate of \$5.00 per day for each working day, 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 August 4, 1942, from Mr. Morrill, recommending (1) that Claude A. Dickerson, Jr., be promoted from the position of page to that of clerk to the building manager in the Secretary's Office on a temporary basis for an indefinite period, and that his

8/7/42

-8-

salary be increased from \$1,380 to \$1,500 per annum, effective August 16, 1942, (2) that James F. Bird be transferred from the elevator force to the position of page in the Secretary's Office on a temporary basis for an indefinite period, and that his salary be increased from \$1,200 to \$1,260 per annum, effective August 16, 1942, and (3) that James W. Arnold, Jr., be appointed as an elevator operator in the Secretary's Office on a temporary basis for an indefinite period, with salary at the rate of \$1,200 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 August 5, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Charles P. Kindleberger as an Associate Economist in that Division, to become effective as of the close of business on August 5, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Telegram to Mr. A. Z. Baker, President of the Cleveland Union Stock Yards Company, Cleveland, Ohio, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you Class C director of Federal Reserve Bank of Cleveland for unexpired portion of term ending December 31, 1944, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.



8/7/42

-9-

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

"This refers to your letter of July 21, 1942, enclosing a copy of a letter dated July 11, 1942 to the Baltimore Branch of your Bank from Mr. H. R. Fletcher, Cashier of the Peoples Bank of Cumberland, Cumberland, Maryland, and a copy of a loan application form executed June 9 by Mr. Harry W. Eyre to the Peoples Bank of Cumberland pursuant to which he obtained a \$350 loan.

"Such correspondence raises the question as to what violations of Regulation W, if any, occurred where the only statement taken from the borrower, namely, the loan application form, did not comply with sections 6(d) or 7(d) and in such statement the borrower misrepresented to the unsuspecting lender the purpose for which the loan was requested. The only inquiry of such application here pertinent asked that the borrower state how the proceeds of the loan, if granted, would be used. The borrower's real purpose in obtaining the loan was to make the required down payment in the purchase of an automobile, rather than as stated, 'To send (funds) to father in Army for training course'.

"You state that the Peoples Bank of Cumberland has been advised of the inadequacy of the loan application form as a Statement of Borrower required under sections 6(d) and 7(d) or, as here executed, as a statement required for exemption under section 8(c), had exemption been intended. The Board agrees that this advice was proper.

"The Board also agrees that the view expressed by your Counsel that the making of the loan by the Registrant without a statement required by sections 6(d) or 7(d) was of itself a violation of the Regulation. In addition, it should be noted that such conduct, in some cases, might very well come within the prohibition of section 3(a)(2) and the provisions of section 3(d)(2).

"While, as indicated in your letter, a borrower knowingly participating in a violation of the Regulation may, according to Interpretation W-31, become subject to the applicable criminal penalties, it does not appear that the borrower, in this case, did knowingly participate in the violation by the Registrant. Furthermore, and as expressed in your letter, the improper statement in question, aside from any question of the borrower's misrepresentation, was not one which was effective for any purpose of the Regulation; and, not being of the type required under sections 6(d) and 7(d), the express prohibition against material

8/7/42

-10-

"misstatements or omissions by an obligor, should such be the case, could not be applied. This emphasizes the necessity for employing the forms prescribed under such sections. Had one such form been used, the borrower in this case, by virtue of his misrepresentation, would have violated the Regulation.

"In the circumstances, you may deem it desirable to supplement your advice to the Peoples Bank of Cumberland with some statement of the substance of this letter. Your conclusion that the case does not warrant more drastic action seems to be correct."

Approved unanimously.

Letter to Mr. J. H. Tripp, Tripp Furniture Co., Jackson, Mississippi, reading as follows:

"Your letter of July 23, addressed to Mr. Leon Henderson, has been referred to us inasmuch as it is the Board's Regulation W that has to do with consumer credit.

"Your letter makes the suggestion that in order to enforce the requirement that down payments be obtained the buyer be prohibited from making any payments to the seller if the required down payment has not been collected at the time of the sale.

"To make certain contracts unenforceable, as a means of insuring compliance, has not been overlooked by the Board. You will note that section 14 of the regulation, a copy of which is enclosed, provides that 'except as may subsequently be otherwise provided' noncompliance with the regulation will not affect the right to enforce contracts. Whether such a drastic step will eventually be necessary remains to be seen. The Board is naturally reluctant to interfere any more than necessary in the relations between a merchant and his customer, particularly as to the performance of obligations that the customer undertakes.

"The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches and they are hiring their own personnel for this purpose. It may be that you will want to write to the New Orleans Branch of the Federal Reserve Bank of Atlanta which is the branch closest to you.

"Your interest in this matter is appreciated, and the suggestion made that if you know of any specific violations which you would care to report, you bring them promptly to the attention of the above-mentioned branch."

Approved unanimously.

8/7/42

-11-

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

[Signature]  
Chairman.