A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 10, 1942, at 5:10 p.m.

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

Mr. Carpenter, Assistant Secretary

Mr. Szymczak stated that he had just had a call from Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, in which the latter said that he had talked over the telephone with Mr. Klages, Deputy Chairman of the Bank, that Mr. Klages had advised him that at the meeting of the board of directors of the Bank today there was a discussion of the indebtedness and check and other financial operations of Mr. Wagner, who had resigned as Vice President of the Bank, that it had been decided to make a thorough investigation, and that the board of directors would like to have Mr. Brainard go to Cleveland for a special meeting on Monday or Tuesday of next week for further consideration of the matter. Mr. Szymczak said that Mr. Brainard had informed him that he could not go to Cleveland at that time but that the directors had decided to go ahead with the meeting in any event.

During the discussion of the information conveyed by Mr. Brainard, Mr. Szymczak was called on the telephone by Deputy Chairman Klages who stated that the board of directors would like to hold a

special meeting in Cleveland at 9:30 a.m. on Monday, September 14, and that they would like to have Mr. Szymczak present at the meeting.

All of the members of the Board present were in agreement that Mr. Szymczak should attend the meeting, whereupon Mr. Szymczak stated to Mr. Klages over the telephone that he would go to Cleveland for that purpose.

After the telephone conversation with Mr. Klages, there was unanimous agreement on the part of the members of the Board present that Mr. Cagle, Assistant Chief of the Division of Examinations, should accompany Mr. Szymczak to Cleveland for the special meeting of the directors.

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 September 9, 1942, were approved unanimously.

Letter to the board of directors of the "Bank of Warwick", Hilton Village, Virginia, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands

"that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Warwick', Hilton Village, Virginia, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the Commonwealth of Virginia for his information.

"It is noted that the bank's records, systems, and controls are in need of much improvement, that overdrafts are granted too freely and that the matter of elimination of time deposits of other banks remains to be followed to a satisfactory conclusion. No doubt progress may be expected after the changes in management recently to have been effected and it is assumed that the Reserve Bank will follow the situation closely until the correction of matters subject to criticism is definitely assured."

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

"This refers to your letter of August 20, 1942 enclosing a letter of August 17, 1942 from Union Bond & Mortgage Company, Port Angeles, Washington, requesting that the Board determine that such company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, within the meaning of section 2(c) of the Banking Act of 1933.

"The propriety of such a determination was considered in connection with the granting of the general voting permit now held by the company and it was felt that the determination was not then in order. However, the matter is being reconsidered and you will be advised further concerning it."

Approved unanimously.

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

"In your letter of August 15, 1942, you raise a number of questions under Regulation W regarding credit extended by certain mining companies operating stores for the sale of merchandise, including listed articles, to their employees. You state that as a result of slack periods in employment during recent years, the employees have been dependent largely upon credit from such company stores, and that many of the employees are now unable to pay their accounts because of the inadequacy of their current and prospective earnings to retire old indebtedness, even over a 12-month period, and purchase day-to-day necessities.

"In answer to your first question, the Board agrees with your view that it would be a violation of the 'good faith' requirements of sections 5(d)(2) and 5(d)(3) to convert a defaulted charge account of an employee if, at the time, both the company and the employee knew that the resulting instalment obligation could not be performed.

"The Board also agrees that your last question should be answered in the negative, since it would be an evasion of the requirements of sections 4 or 5 for a company store to extend credit formally complying with those sections when it knew at the time such credit was extended that the employee, because of physical disability or unemployment, could not perform the obligation so incurred. It is assumed, of course, that the company is aware that the payment schedule in connection with an instalment sale to an employee who expects to be unemployed for the next four months may reduce or omit payments over this four-month period in accordance with section 9(a).

"You also state that some of the employees have executed so-called blanket wage assignments authorizing a deduction each pay day of any amount, up to the total wages due, for any indebtedness owing to the company. Many such assignments were executed prior to May 1, 1942, and some were given to secure existing indebtedness while others were not. As you point out, the frequency and regularity of pay days and the amounts of pay depend upon the activity of the mines.

"Where an employee has executed a blanket wage assignment, you ask whether sales both before and after May 6, 1942 may be regarded as instalment sales even though, at the date of sale, (a) the amount of wages and the time when the wages would be earned and payable were unknown, (b) it was impossible to determine whether the indebtedness would be liquidated in a single payment or in "two or more scheduled payments" because of the uncertainty stated in (a), and (c) there were in fact no payments formally "scheduled".'

"You also ask whether, if the sales by the company stores were charge sales at the outset, they may be 'regarded as having been converted to instalment credits at the time the total indebtedness exceeded the amount of wages due the next following pay day and the company commenced to make deductions (under a wage assignment) from each wage payment'.

"Of course, answers to both of the foregoing questions are dependent upon the status of the transactions under the Regulation as determined from the contractual relationships between the parties concerned. Thus, if a wage assignment is merely collateral security for payment of indebtedness arising from sales, rather than a provision of a sale transaction specifying the manner of periodic payments, it would be improper to consider the sales as instalment rather than charge sales. Even though there is an understanding that the company will obtain payment for the goods sold by making two or more periodic wage deductions, the transaction would not seem to involve instalment credit unless there was some reasonably definite understanding as to the amounts of such periodic deductions and the dates upon which they were to be made.

"Similarly, a wage assignment serving merely as collateral security for indebtedness rather than a 'written agreement' for payment as prescribed in section 5(d), could not be considered as effecting a conversion of a charge account in default.

"In the circumstances, definite answers to the last two questions would seem inadvisable. More specific information, as a basis for further study, would be necessary for the ultimate disposition of the problems presented, whether by amendment to the Regulation or otherwise. Your forwarding such additional information as may be available will be appreciated, and you will be advised of the Board's action as promptly as the complexities of the situation will permit."

Approved unanimously.

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

"In your letter of July 18, 1942, you asked for our advice regarding compliance with Regulation W of the offerings contained in the advertisement of the Home Furniture Company, Dallas, Texas, which you enclosed with your letter.

"One of the offerings in the advertisement consists of a living room group at a featured total cost of $70.75. The advertised down payment is computed, at the rate applicable

"to furniture, on only a so-called two piece living room suite listed at $49.95. However, the group includes also an occasional chair or rocker, a 9 x 12 rug, a lamp table, and a coffee table, all listed at individual prices of less than $6.00. Similarly, the other offering consists of a bedroom group at a featured total cost of $70.25, the advertised down payment, at the same rate, being computed on only a so-called three piece bedroom suite and a mattress, totaling $52.90. Nevertheless, other items of the group comprise a vanity bench, a bed spring, two feather pillows, and a 9 x 12 rug, all listed at individual prices of less than $6.00. You state that the incidental items listed at less than $6.00 may be selected from any number of pieces in stock.

"Of course, whether groups of items sold together, such as the foregoing, should be considered single articles under section 12(1) necessarily depends upon all the facts relating to the particular sale. While there would seem to be grounds for a reasonable difference of opinion, the view that sales made pursuant to the offerings in question would be in violation of the Regulation would not be without support. Consequently, it would seem desirable that a store not make offerings of groups of items in the foregoing manner if it wishes to avoid any doubt as to the legality of its transactions.

"A comparison of the offerings involved in the advertisement of the Home Furniture Company with those involved in your letter of January 16, 1942 and the Board's reply thereto of February 7, 1942, demonstrates that borderline cases are inevitable and that it would not be advisable to attempt to lay down a line of demarcation, suggested by you, between items which may constitute a group and which may not constitute a group under section 12(1). In this connection, you give in your letter of July 18, 1942, the example of a customer who purchases a suit of clothes and at the same time purchases several other items such as a hat, shirt, ties, etc., the suit being the only item priced in excess of $6.00. While the circumstances of the particular sale would be determinative, it would seem, in the ordinary case, that where the items are not offered or sold as a single ensemble, the down payment requirement would apply only to the suit.

"We regret that there has been so much delay in answering your letter, but the problem involved required much study and a thorough analysis of the various views considered."

Approved unanimously.

Letter to Mr. L. J. Leatzaw, Sales Manager of the Creo-Dipt Company, Inc., North Tonawanda, New York, reading as follows:

"This is in reply to your letters of September 1 and September 2, 1942, concerning the effect of Amendment No. 6 to Regulation W on credit sales of your products for application on existing dwellings.

"You are correct in your understanding that materials, such as yours, applied on the outside of existing dwellings do not come within the exception provided by Amendment No. 6. This is for the reason that the exception is limited to insulation materials applied 'within existing structures'.

"At the time Amendment No. 6 was being prepared, considerable study was given to the question of whether or not to include such materials as siding and roofing. In deciding not to include them, after giving due weight to their value in reducing heat loss, the Board was influenced by countervailing considerations, including the undesirability of relaxing the restrictions of Regulation W over a wider field than necessary for the immediate purpose. There seemed, on the whole, to be technical grounds for drawing the line at the point where it is drawn by Amendment No. 6.

"You refer in one of your letters to an article in 'Victory' which outlines methods which the Petroleum Coordinator for War and the Administrator of the Office of Price Administration have agreed to recommend in the interest of fuel saving. You point out that this article says 'Where possible, the outside walls of private homes should also be insulated'. It is our understanding that in making this recommendation the article referred to the installation of mineral wool or similar material within outside walls rather than the application of siding.

"As the President stated in his message to Congress on April 27, the curtailment of consumer credit is one of the necessary steps to be taken as a part of the program to neutralize the forces working toward the advance of prices. The regulation of such credit can be relaxed only when circumstances, such as the acute shortage of transportation facilities for fuel, develop an urgent necessity for special treatment of some particular class of credit and then relaxed only to the extent required to meet the particular situation that has developed.

"In any event, we should like you to feel that the question in which you are interested, and which has been

"decided for the present at least, is one that the Board has taken seriously and has tried to decide as best it can in the light of all the relevant considerations."

Approved unanimously.

Letter to Mr. Donald Tulloch, Jr., Asbestos Cement Products Association, Philadelphia, Pennsylvania, reading as follows:

"This is in reply to your letter of September 1, 1942.

"We understand from your letter that your association is interested in making and supporting a proposal for an amendment to the Board's Regulation W, relating to consumer credit, which would have the effect of enabling credits extended to consumers for the purchase of certain asbestos cement products to be extended for a longer period than that now permitted by the regulation.

"We also understand, partly from your letter and partly from previous contact with members of your industry when Amendment No. 6 was in process of preparation, that your proposal is based primarily on the contention that use of the products in question is capable of effecting substantial savings in fuel. That this contention can be established, not only for certain asbestos cement products but also for many other products not covered by Amendment No. 6, is a matter of which the Board was of course aware, and took into consideration along with many other factors, when the Board adopted that amendment. It would appear, therefore, that in these circumstances your association would now be interested not only in a presentation of certain facts to the Board 'by a recognized expert in the insulation field', as stated in your letter, but also in the presentation of reasons why the Board should now reconsider its earlier decision.

"The Board is naturally always ready and willing to consider cases of this kind, and would suggest that it would be well to follow in this instance a procedure that has been found by experience in other instances to be effective in saving time and focusing discussion. This would involve your taking up the matter first with the Federal Reserve Bank of Philadelphia, which has charge of the administration of Regulation W in your district. If, after discussion with the Federal Reserve Bank of Philadelphia, you feel that you would like to send representatives to Washington, we should be glad to arrange a conference with them.

"A copy of your letter and of this reply are being sent to the Federal Reserve Bank of Philadelphia, marked for the attention of Mr. C. A. Sienkiewicz, Vice President, who has general supervision over consumer credit regulation for the Bank."

Approved unanimously.

Letter to Mr. Thomas W. Doig, Assistant Managing Director of the Credit Union National Association, Madison, Wisconsin, reading as follows:

"There has come to our attention recently the following excerpt from the August 1942 issue of The Bridge (Page 179), the official publication of the Credit Union National Association:

'If one of your members borrowed $960.00 in July 1941, or at any time previous to September 1, 1941, when Regulation W went into effect, such a loan may be renewed or revised once for any number of months permitted by the credit union law under which you operate, in accordance with Section 12, paragraph (e), of Regulation W. So if your member's salary has been reduced, you may rewrite his old loan balance of $560.00 for any number of months that you desire, and if you wish you may lend him additional money -- provided, however, that sufficient cash is collected within the next 12 months to cover the new advance.'

"Assuming, for example, that the maximum maturity which the credit union would have granted in good faith in the absence of the Regulation was 30 months and that the member desired a new instalment loan of $300 at the time of revision of the $560 balance of the old loan, it would be proper for the total indebtedness of $860 to be made repayable in 12 monthly payments of $43.67 followed by 18 monthly payments of $18.67. These payments, of course, represent $18.67 a month for 30 months on the $560 balance and $25.00 a month for the maximum period of 12 months on the new loan of $300. This treatment of the total credit conforms with section 12(e), the principle expressed in the Board's Interpretations W-19 and W-28, and Option 1 of section 10(b).

"Under the principle of W-19 and W-28 the $560 balance may be revised once on any terms which the credit union

"would have granted in good faith in the absence of the Regulation. It is under this principle, of course, that the 30 month maximum maturity may be applied.

"While the terms of repayment applicable to the $560 balance might, at some credit unions and in some circumstances, provide for the reduction, or even the postponement, of the early instalments, the last sentence in the excerpt quoted above would seem to be misleading since it does not point out that the terms should be terms which the Registrant would have granted on that balance, if standing alone, in the absence of the Regulation. To illustrate, if the payment schedule on the total indebtedness of $860 requires 30 monthly payments of $28.67, the result would be payments of only $3.67 per month for the first 12 months on the $560 balance (since the consolidation is under Option 1), and it would seem improbable in most cases that the Registrant, in good faith, would have granted these terms on that balance standing alone."

Approved unanimously.

Letter to Honorable D. W. Bell, Under Secretary of the Treasury, reading as follows:

"This refers to your letter of August 31, 1942, transmitting a copy of a letter which the Treasury proposes to send to the Federal Reserve Banks of Chicago and New York setting forth a proposed plan for the exclusive use of punch-card checks in the Chicago and New York offices of the Division of Disbursement and the payment of such card checks through the Federal Reserve Banks in a manner similar to that now followed with respect to emergency relief checks.

"From the standpoint of the Board, there is no reason why the letter as drafted should not be sent to the Federal Reserve Banks of New York and Chicago. It is understood, however, that the use of punch-card checks will not be extended to other districts until after an opportunity has been had to determine the costs of the new procedure to the Federal Reserve Banks. When these costs become available, the Board and the Federal Reserve Banks may wish to take up with the Treasury the question of reimbursing the Federal Reserve Banks for expenses incurred in paying checks as agents of the Treasury.

"As you know, Treasury checks are handled by the Federal Reserve Banks under the provisions of Treasury Circular 176. Counsel for the Board and the Federal Reserve

"Banks are of the opinion that Circular 176 needs revision, not only to incorporate therein provisions with respect to the paying of punch-card checks but also with respect to conditions under which Federal Reserve Banks handle other Government checks. The Board's General Counsel recently submitted this matter to counsel for each Federal Reserve Bank and copies of their views on this subject have been furnished informally to Mr. Chambers of the Bureau of Accounts. The Board understands that it will be the purpose of the Treasury Department to revise Circular 176 at an early date and before the use of punch-card checks is extended to other Federal Reserve districts, and that counsel for the Federal Reserve Banks and the System's Standing Committee on Collections will be afforded an opportunity to confer with representatives of the Treasury with respect to proposed changes in the Circular."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 17, 1942, for printing of $25,200,000 of Federal Reserve notes of the 1934 series for the Federal Reserve Bank of St. Louis in the $5 denomination."

Approved unanimously.

Thereupon the meeting adjourned.

Assistant Secretary.

Approved:

Vice Chairman.