

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 23, 1942, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated September 21, 1942, from Mr. Szymczak, recommending that Miss Dorothy R. Johnson be appointed as a stenographer in his office, with salary at the rate of \$1,800 per annum, effective October 1, 1942, after having passed satisfactorily the usual physical examination.

Approved unanimously, it being understood that Miss Melania K. Sokol, who expects to resign at the end of the current year and whom Miss Johnson will replace, will be transferred to the Division of Personnel Administration where she will assist until she leaves.

Memorandum dated September 21, 1942, from Mr. Morrill, recommending (1) that Percy C. Riston, assistant foreman of laborers in the Secretary's Office, be promoted to the position of foreman of laborers, and that E. J. Weeks, laborer in the Secretary's Office, be promoted to the position of assistant foreman of laborers, both on a temporary basis for an indefinite period, and (2) that the salaries of Messrs. Riston and Weeks be increased from \$1,680 and \$1,320 to \$1,860 and \$1,680 per

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annum, respectively, effective October 1, 1942, and continuing only while serving in the capacities of foreman of laborers and assistant foreman of laborers, respectively.

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of September 19, 1942, the Board of Governors approves the payment of a salary to Mrs. Charlotte Nowell McLaughlin, stenographer in the office of Mr. W. B. Van Devanter, Regional Chairman of the Victory Fund Committee in the District of Columbia, at the rate of \$1,800 per annum, which is \$120 in excess of the maximum annual salary provided in the personnel classification plan of your Bank for the position occupied by Mrs. McLaughlin."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers further to your letter of September 12, 1942, enclosing the opinion of counsel for your Bank regarding the question whether certain officials of the United States Maritime Commission and of the War Department have authority to waive requirements of the instructions of those Agencies in authorizing the making of a guarantee by a Federal Reserve Bank pursuant to Executive Order No. 9112. In accordance with your request, your inquiry was referred to the Maritime Commission and the War Department for clarification of the question presented.

"The Board has now received a memorandum from the War Department dated September 18, 1942, signed by Lieutenant Colonel Paul Cleveland, Chief, Loan Section, and approved by the Honorable Robert P. Patterson, Under Secretary of War, regarding this matter; and a copy of the War Department's memorandum is enclosed for your information and guidance. We have not yet received advice with respect to this question from the United States Maritime Commission."

Approved unanimously.

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

"This refers to your letter of September 4, 1942, with respect to the question whether the limitations upon real estate loans by national banks contained in section 24 of the Federal Reserve Act are to be considered applicable to loans guaranteed by the War Department, Navy Department, or Maritime Commission under Executive Order No. 9112 and Regulation V. It is understood that you have particular reference to cases in which a guaranteed loan is secured in part by a first lien on real estate, but where the mortgage or deed of trust upon the real estate is intended only as additional security, the primary security consisting of assignments of defense contracts.

"In the Bulletin of the Comptroller of the Currency for August 15, 1941, there was published at # 6740 a ruling of the Comptroller of the Currency which we believe may adequately cover the question with which you are presented. In that ruling, the Comptroller of the Currency stated:

'It is the position of this office that any loans based upon real estate security must conform to the provisions of section 24 of the Federal Reserve Act, as amended, unless the circumstances justify the assumption that the real estate security as such is remote or incidental and is taken out of an abundance of caution. In such cases the burden of proof is upon the bank to convince the examiner that the loans may properly be excluded from consideration as "real estate loans" subject to the provisions of section 24, supra.'

As you know, the Bulletin of the Comptroller of the Currency is published and distributed only for the confidential use of national bank examiners and others engaged in the administration of the national banking laws; and it may not be quoted directly to others. However, the ruling of the Comptroller of the Currency above mentioned would seem to indicate that the taking of real estate mortgages as additional or incidental security for guaranteed loans, where the primary security is represented by the guarantee or by assigned contracts, would not be considered by the Comptroller's office as a violation of section 24 of the Federal Reserve Act.

"We are transmitting a copy of your letter and of this reply to the office of the Comptroller of the Currency for the information of that office."

Approved unanimously.

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

"Consideration is being given to a proposed Amendment No. 9 to Regulation W in draft form as shown by the enclosure.

"The matters to which the proposed amendment relates are all technical: (1) the requirement of a down payment (or refundable deposit) on listed articles sent out 'on approval', as 'demonstrators', etc., when the sale that is in contemplation is an instalment sale; (2) 'floor authorizations' for sales in charge accounts of articles priced at \$5.00 or less when the customer, instead of taking the article with him, orders it to be delivered; and (3) small defaults, those of \$2.00 or less, in charge accounts. It will be noted that the first of the proposed changes is on the restrictive side and that the other two are on the liberalizing side.

"The Federal Reserve Banks are requested to make comments and suggestions on the proposed changes and to advise the Board of their own recommendations. Replies should reach the Board by October 1, 1942.

"You are at liberty to consult such persons in the trade as you may desire to consult in order to inform your own judgment and enable you to arrive at definite recommendations, but it is assumed that you have already discussed these matters with the trade to such an extent that further consultation will relate mainly to details and probably need not involve more than a few selected consultants."

Approved unanimously.

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

"This refers to your letter of September 3, 1942, enclosing a copy of a letter of August 14, 1942, from Mr. Williams at your Bank to Col. Edward T. Higgins, of Beneficial Management Corporation, relating to the treatment under Regulation W of instalment loans to purchase coupon books which in turn may be used to purchase listed articles.

"On the basis of the information submitted by you, it appears that such transactions will be handled in a quite practical manner and that the possibility of abuses or evasions of the Regulation will be reduced to a minimum."

Approved unanimously.

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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 August 26, 1942, enclosing copies of letter to you and to the Retail Credit Association of Kansas City from certain merchants, relating primarily to the return and exchange of merchandise by customers whose accounts are in default under section 5(c) of Regulation W.

"It is the Board's view that if an article which has been purchased in a charge account is returned to the seller the resulting credit to the customer's account may be applied in cancellation of the credit previously extended in connection with the sale of such article. Thus, if the article returned is an article with respect to which the account is in default, the default in the account as to that article may be regarded as cured since, as to such article, there is no longer an extension of credit essential to the continuance of the default. On this basis, however, it is only where the article returned is one with respect to which the account is in default that the resulting credit can be applied against the amount of the default.

"In addition, it is the Board's view that after default in a charge account occurs, an article previously purchased in the account may be exchanged for a different article (although, of course, in case the new article is a listed article, the price of which exceeds the credit for the article returned, the excess may not be charged to the account that is in default but must be paid in cash). The fact that any such exchange, because of convenience to the parties or the Registrant's bookkeeping and inventory systems, may be entered on the Registrant's books as a return of merchandise followed by a credit sale of a new listed article, would not be material. The purpose of section 5(b) is to prevent the extension of additional credit for listed articles after the occurrence of the default, while the transactions discussed herein would not, in substance, involve the extension of additional credit but merely the continued use of credit legally extended in the first instance. Of course, it is assumed that any such return or exchange is bona fide and not for the purpose of evading any provision of the Regulation.

"Some of the correspondence enclosed with your letter raised a question regarding defaults arising from small unpaid balances in charge accounts. The question of amending the Regulation to waive defaults of small amounts is still under study."

Approved unanimously.

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

"This is in reply to your letter of September 16, 1942, referring to the possibility of exempting from Regulation W loans made to dependents of men in the armed forces. The recent inquiries which you mention seem to be related to the fact that a number of these people will commence receiving dependency allotments from the Government in November.

"The question which you raise touches upon the broader problem of what may have to be done in the future as more and more married men and others having dependents go into the armed forces. The Government allotment scheme will undoubtedly be inadequate in some cases and the question arises whether or not exceptions will have to be made for cases of this kind. It is not apparent to us off-hand that the exceptions would be particularly helpful inasmuch as there would seem to be no income available to provide for the payment of any extensions of credit which might be made, so that the actual number of credits which the lenders or vendors would be willing to extend under these circumstances would appear to be limited.

"Your particular question, however, concerns the allotments which will be received in November. The fact that your inquiries have originated recently would seem to indicate that prior to the allotment scheme the vendors or lenders were unwilling to extend the credits but that when they saw these people were going to have some money in November they were willing to anticipate those funds. Just how much this development comes from the need of the families to obtain the goods immediately or the desire of the merchants to sell goods is difficult to surmise. We are wondering if complaints have been received from individuals as distinguished from lenders and vendors.

"If the case is merely one of anticipating November payments, it would appear that Regulation W was adapted to that purpose. Single-payment loans could be made for 90 days and no down payments would be involved unless listed articles were being purchased. In charge accounts, purchases in September need not call for payment prior to the 10th of November. According to your informants, the people concerned would receive their allotments about that time.

"This, of course, is a subject which will have to be considered very carefully and we would be glad to have you send us any additional information which you obtain as well as your reactions on the importance and urgency of the problem."

Approved unanimously.

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Letter to Mr. Frank Hewins, Jr., Hallowell, Maine, reading as follows:

"This is in reply to your letter of September 14, 1942, asking certain specific questions relative to the Board's Regulation W.

"Your bill for repairs at the garage is not subject to the charge account provisions of the regulation. We do not, however, use the word 'repairs' in the broad sense as including automobile batteries and accessories. Likewise, the repair bill for an individual who uses his automobile for pleasure is not subject to the regulation.

"Regulation W contains all of the provisions with reference to credit restrictions, but it does affect garages under certain circumstances. If a garage sold automobile batteries and accessories, automobile tires and inner tubes for passenger automobiles, automobile radios or any of the other articles listed in section 13(a), the credit extended by the garage would be subject in the following way: If an individual or business has not paid for purchases of 'listed' or unlisted articles by the tenth day of the second calendar month following the dates of purchase, he cannot buy on credit any of the 'listed' articles unless the default has been cured pursuant to section 5(d). A very large share of the garage business does not involve listed articles and would, therefore, not be subject in any way. The notice which you enclosed with your letter is somewhat inaccurate. It does not make a distinction between the purchase of listed and unlisted articles; moreover, it implies that the only way in which a default can be cured is by payment in full.

"The accounts of merchants with manufacturers and wholesalers for articles which the merchants resell to customers are in no way subject to the regulation, even if the articles are listed articles. You will note that a special exception for this type of business is provided by section 8(f) which was revised by Amendment No. 8.

"We hope these answers will provide the information which you wish to have. We have found that a good deal of misunderstanding of the provisions of the regulation has resulted from the fact that creditors have been anxious to use the regulation to help them in collecting all kinds of debts and, through inadvertence, have given the regulation a broader application than was intended. We have endeavored to make the rules as simple as possible, but you will appreciate that they must take into account the problems with which merchants are sometimes faced. Most of the features that may appear

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"complicating are the result of our trying to provide for special cases which are not of the usual type but which must be handled by merchants from time to time.

"The administration of Regulation W is decentralized among the twelve Federal Reserve Banks, and you will perhaps find it more convenient to direct any further questions that you may have on this subject to the Federal Reserve Bank of Boston, Boston, Massachusetts, in whose district you are located."

Approved unanimously.

Memorandum dated September 22, 1942, from Mr. Dreibelbis, General Attorney, recommending that there be published in the October issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Discounts by Federal Reserve Banks
Amendment to Regulation A

Reserves
Amendment to Supplement to Regulation D

Consumer Credit
Interpretation of Regulation W

Government Contracts
Executive Order dealing with War Contracts

Foreign Funds Control
Public Circular and Public Interpretation

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Donald A. Hanson
Vice Chairman.