

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 3, 1942, at 11:00 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Dreibelbis, General Attorney  
Mr. Parry, Chief of the Division of  
Security Loans

Mr. Ransom stated that it had definitely been determined by investigations made by representatives of the Federal Reserve Bank of Atlanta that there had been numerous deliberate violations of Regulation W by the Clark Brothers Furniture Stores, a partnership operating stores in Chattanooga, Tennessee, and Dalton and LaFayette, Georgia, and that in a conference between Mr. McLarin, President of the Federal Reserve Bank of Atlanta, and Mr. Otis Clark, General Manager of the stores, the latter had admitted the violations and had signed a written statement expressing a desire to enter into an agreement pursuant to which the Board would issue an order under which the stores would be closed for all purposes for a period of one week. Mr. Ransom also said that he believed that that would be the most

11/3/42

-2-

satisfactory manner of handling the case and that the publicity that would attend the Board's order would be an effective means of letting the public know that steps were being taken to punish deliberate violators of the regulation. One of the questions involved, he said, was whether the closing would mean the loss of a week's salary by the employees of the stores, but that it had been suggested that the order issued by the Board could provide that the suspension of the license for a period of one week would not prohibit the stores from collecting their accounts or paying their obligations, including obligations to employees for salaries or wages.

The members of the Board having indicated that they would favor handling the case in the manner proposed, Mr. Ransom moved that the Legal Division be requested to prepare an order for transmission to the owners of the Clark Brothers Furniture Stores through the Federal Reserve Bank of Atlanta.

This motion was put by the chair and carried unanimously, with the understanding that the further steps in the proceeding would be handled under the direction of Mr. Ransom.

At this point, Messrs. Thurston, Dreibelbis, and Parry 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 November 2, 1942, were approved unanimously.

11/3/42

-3-

Memorandum dated October 31, 1942, from Mr. Leonard, Director of the Division of Personnel Administration, recommending, with the approval of Mr. Szymczak, that Daniel F. Lane be appointed as a messenger in the latter's office, with salary at the rate of \$1,320 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 October 31, 1942, from Mr. Leonard, Director of the Division of Personnel Administration, recommending, as a general administrative practice in connection with the resignation of Board employees, (1) that if the odd amount of annual leave remaining to an employee's credit is equal to one-half day or more the resignation be made effective as of the end of that day, and (2) that if the odd amount of annual leave remaining is less than one-half day the resignation be made effective as of the end of the last full day.

Approved unanimously.

Memorandum dated October 30, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Julia Haigh as a clerk-stenographer in that Division, to become effective as of the close of business on October 30, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

11/3/42

-4-

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

"In accordance with the request contained in your letter of October 29, 1942, the Board approves the appointment of Marion H. Callender as an examiner for the Federal Reserve Bank of Philadelphia. Please advise us of the date upon which the appointment becomes effective.

"It is understood that the proposed appointee will be engaged on a temporary basis."

Approved unanimously.

Letter to the board of directors of "The French Lick State Bank", French Lick, Indiana, stating that, subject to conditions of membership numbered 1 to 6 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 St. Louis.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The French Lick State Bank', French Lick, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"It is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank.

11/3/42

-5-

"Therefore, you are authorized in accordance with the general authorization previously granted by the Board to waive compliance with the condition numbered 6 until further notice.

"It is noted that you have given consideration to the matter of excessive banking facilities in the community, which includes the nearby town of West Baden Springs, and feel that the situation has not yet developed sufficiently to determine upon a course of action but will render opportune assistance to effect a merger or other proper solution."

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

"The Board has received from the War Department a memorandum dated October 31, 1942, signed by Lieutenant Colonel Paul Cleveland, Chief, Loan Section, Advance Payment and Loan Branch, regarding the use of Optional Condition (N), in view of the position taken by the Comptroller of the Currency in his letter of October 28, 1942, a copy of which was transmitted to you with our letter of October 29, 1942 (S-575). A copy of the War Department's memorandum is enclosed for your information and guidance."

Approved unanimously.

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

"There is enclosed for your information and guidance a copy of a letter which the Board has received from the Navy Department dated October 31, 1942, identified by the number 34OPM10311008, signed by Mr. S. A. Mitchell, Chief of Finance Section, regarding the insertion of Optional Condition (N) and of Optional Condition (L) in guarantee agreements executed on behalf of the Navy Department, and with respect to a modification in the standard form of authorization.

"In this connection, the Navy Department has requested the Board to advise the Federal Reserve Banks

11/3/42

-6-

"that on and after October 31, 1942, and until instructed to the contrary by the Navy Department, authorizations for the execution of guarantee agreements will include a footnote, referring to the words 'standard form dated May 14, 1942' where they occur in the form of authorization, in the following language:

'Subject to the instructions contained in the letter of October 31, 1942 from the Navy Department to the Federal Reserve Banks, 34OPM10311008'."

Approved unanimously.

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

"This will acknowledge your letter of October 29, 1942 relative to your discussions with Mr. Donald Tulloch, Jr., Manager of the Asbestos Cement Products Association, concerning the possible exemption from Regulation W of credit extended for the installation of asbestos siding. We note your conclusion that this product should not be exempt as an insulating material unless a wide variety of other products are similarly exempt.

"In deciding upon the present scope of Amendment No. 6, which does not include this type of siding, the Board was influenced by much the same considerations as you mentioned in your letter. Up to the present time, there has been no new development which would lead the Board to change its decision on this question. It is suggested that you convey this information to Mr. Tulloch.

"You will recall that Mr. Tulloch wrote first to the Board and requested a hearing in Washington. If, after your further talk with him, he still feels that he would like to send representatives to Washington, we should be glad to arrange to see them."

Approved unanimously.

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

11/3/42

-7-

"This refers to your letter of October 13, 1942, enclosing two problems regarding the application of Regulation W on which you requested the Board's advice. Due to the difference in subject matter of these problems and the considerations involved in preparing answers thereto, the second problem will be dealt with in a separate letter.

"Your first problem concerns a Registrant from whom a customer ordered furniture and other articles for furnishing his house for delivery as soon as possible at an agreed price. Due to delay in obtaining materials and the time required for fabrication or shipment from the Registrant's suppliers, deliveries to the customer were staggered over a period of 5 months. By the time two-thirds of the order was delivered, the customer had made down payments (but without reference to particular articles) equal to the required down payment on all of the articles ordered, and had executed two instalment notes for most of the deferred balance due.

"Generally, in the case of a contract of sale covering several articles, a delay in the delivery of one article because of time consumed in its manufacture, would necessarily delay the date of sale of that article, since there can not be a sale of an article not yet in existence. Under the Regulation, each such sale, if on an instalment basis, would have to conform to the requirements of section 4.

"However, in the case of a contract for the sale of a set or group of related items, such as a suite of furniture, under circumstances such as to make it clear that an unconditional sale of the set or group is not to be considered as occurring until all of the component items are delivered, the Registrant may regard the sale as not occurring until all such component items are delivered so long as any delay in delivery of the last item in the set or group is not unreasonable and is not for the purpose of circumventing or avoiding the requirements of the Regulation. The question whether a delay in delivering the final items in a set or group is unreasonable is a question of judgment in each case.

"In the circumstances, the Board feels that your specific question number one could only be answered after a thorough analysis of all the facts in the light of the foregoing comments; but your statement of the problem contains nothing which would seem to require a different answer from that which you propose, namely, that since there is a

11/3/42

-8-

"single contract covering an integrated group of items, and no attempt to evade the Regulation, the principle stated in W-43 may be applied. S-334 (W-60) to which you refer, does not prevent making a down payment in advance to be applied on a specific item which has been ordered but not yet delivered. The last sentence of S-530-a was intended to mean merely that where the owner ordered or purchased and received delivery of materials as they were needed, regardless of whether his specific needs were known in advance, 'it is probable that there was\* \* \* a series of sales'.

"In this regard, you also refer to an interior decorating contract pursuant to which the decorator agrees for a lump sum to decorate several rooms or a whole house, the contract including painting, finishing of floors, and sales of furniture, drapes, rugs, etc. You point out that deliveries of material and other articles will be made from time to time and that execution of the contract may cover a period of several weeks or months. In the usual case, situations such as this would seem to be covered by W-43, and you will note that where there is a delay in the completion of a job, the date of completion may be used as a basis for applying the requirements of section 4."

Approved unanimously.

Letter to Mr. Raisty, Manager of Consumer Credit Control at the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of October 20, 1942 asking four questions in connection with sections 4(e) and 5(h) of Regulation W added by Amendment No. 9. The questions arise out of a case where three coats are sent on approval to a customer with the understanding that the customer will select one coat and return the others.

"Your first question is whether the store should ascertain at the time the article is sent out whether the customer expects to pay cash, or expects to charge the coat, or expects to pay for it in instalments. You have informed the store that it should do so, and the Board agrees.

"Your second question is what down payment should be obtained if the coats are delivered in anticipation of an instalment sale. The answer is that the customer expects to buy only one coat, and therefore only one coat is delivered 'in anticipation' of a sale. Therefore, the customer is required to deposit only an amount equal to the down payment which would be required on the most expensive of the three coats.

11/3/42

-9-

"Your third question deals with the case where the three coats are delivered on approval and the customer states that she expects to charge the coat which she selects. While the usual practice would probably be to charge all three coats to the customer's account at the time of delivery and to cancel the charge on two of them when returned to the store, section 5(h) only requires the store to charge one of them to the account for the reason discussed in the preceding paragraph. However, when the customer makes her selection and decides to keep the coat, she states that she wishes to place the sale on an instalment basis, and you ask whether a down payment should be obtained.

"In such a case, the customer does not carry out the anticipation contemplated by section 5(h) and her failure to do so operates as a cancellation of the transaction there covered. Consequently, there is a new transaction, namely, an instalment sale, which is subject to all of the provisions of the Regulation applicable to such a sale, including the requirement that a down payment be obtained. Of course, the original delivery on approval without a down payment would have been a violation of sections 4(e), 5(a) and 11(a) if there had been any agreement or understanding, express or implied, that the coat would eventually be sold on instalments.

"Your fourth question relates to a case where the customer, having selected one of the three coats which were delivered on approval, returns it for alteration. Your question is whether the date of sale for default purposes is the date of delivery on approval or the date on which the coat is returned to the customer after alteration. This appears to be the same kind of a case as the second case discussed in S-563, and consequently the date of sale for purposes of determining whether or not the account is in default is the date on which the article is returned to the customer after alteration."

Approved unanimously, with the understanding that copies of the above letter would be sent to the Presidents of all the Federal Reserve Banks.

Telegram to Mr. Dillard, Vice President of the Federal Reserve

Bank of Chicago, reading as follows:

11/3/42

-10-

"Have received letter from Ray S. Erlandson, Music Industries War Council, 34th floor, 105 W. Adams Street, relative to effect of Amendment No. 9 Regulation W on approval sales of musical instruments. Suggest you explain to him that Registrant need obtain down payment only on most expensive of several instruments taken out for selection. If this does not solve problem suggest you discuss with him and advise Board."

Approved unanimously.

Letter to Mr. Harold P. Sutton of the H. P. Sutton Company, McCook, Nebraska, reading as follows:

"The Office of Price Administration has referred to us your letter of October 13, 1942 as it relates to the Board's Regulation W which deals with consumer credit. You report that Mace & Company of Kansas City, Missouri, is selling railroad watches without obtaining the required one-third down payments.

"It would appear from what you say about this practice that it is in conformity with Amendment No. 8 to the regulation which became effective August 12, 1942. A copy of this amendment is enclosed.

"This change, which has the effect of exempting from the restrictions of the regulation credit purchases of watches under the conditions described in the amendment, was introduced at the urgent request of a number of railroads. The railroads maintained that the credit restrictions were preventing them from getting the employees needed to operate their trains. Men had to have watches in order to qualify for certain jobs and had no funds with which to make down payments. In view of the tremendous task which the railroads have been called upon to perform in the war emergency, in view of their difficulties in obtaining personnel, and in view of the crucial part played by watches in the prevention of accidents on railroads, the Board believed that the restrictions of the regulation might be relaxed. It is, of course, only in unusual and critical situations like this that exemptions can be provided.

"We believe this will explain what has developed, but if you have any further question in connection with the regulation we suggest that you communicate with the Omaha Branch of the Federal Reserve Bank of Kansas City, Omaha,

11/3/42

-11-

"Nebraska. The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches and you are in the district for which the Omaha Branch is responsible."

Approved unanimously.

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

"Referring to your letter of October 30, it was not intended that the destruction schedule, referred to in the Board's letter S-235 of November 7, 1940, with respect to the retention of National bank examination reports should apply to extra copies of such reports sent to branches.

"So far as the Board is concerned, it will be entirely agreeable to have all copies of such reports sent to branches destroyed in accordance with such schedule as the head office may prescribe, provided a copy of the report is retained in the files of the head office."

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 Federal Reserve notes of the 1934 series of the Federal Reserve Bank of San Francisco in the following denominations and amounts:

<u>Denomination</u>	<u>Number of sheets</u>	<u>Amount</u>
5's	1,350,000	\$81,000,000
10's	1,750,000	210,000,000
20's	875,000	210,000,000"

Approved unanimously.

Thereupon the meeting adjourned.

Approved: [Signature]  
Chairman.

[Signature]  
Secretary.