

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 12, 1942, at 11:00 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. Clayton, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 11, 1942, were approved unanimously.

Memorandum dated October 31, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that the salaries of Clarence C. Hostrup, a Federal Reserve Examiner, and Miss Frances A. Scott, a stenographer in that Division, be increased from \$5,500 and \$1,800 to \$5,800 and \$1,920 per annum, respectively, effective November 16, 1942.

Approved unanimously.

Memorandum dated November 10, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that John J. Hart, an Assistant Federal Reserve Examiner, be granted leave of absence without pay beginning November 12, 1942, so that he might enter active duty with the United States Army, and that he be granted the benefits provided in the

11/12/42

-2-

policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously.

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

"As requested in your letter of October 26, 1942, the Board of Governors approves the payment of a salary to Mr. Lloyd W. Benjamin, Credit Analyst Senior Clerk, at the rate of \$4,000 per annum, which is \$400 in excess of the maximum annual salary provided in the personnel classification plan of your Bank for the position occupied by Mr. Benjamin."

Approved unanimously.

Letter to Mr. Clarence W. Avery, President of the Murray Corporation of America, Detroit, Michigan, reading as follows:

"The Board of Governors accepts your resignation as director of the Detroit Branch of the Federal Reserve Bank of Chicago, effective as of the date on which you assume office as a director of the Federal Reserve Bank of Chicago.

"The Board is pleased to learn from your letter of November 5, 1942, that you have thoroughly enjoyed your association with the directors and officers of the Detroit Branch and hopes that you will find your new association with the Federal Reserve Bank of Chicago equally enjoyable and one which will enable you to make an even greater contribution to the public service through the Federal Reserve System."

Approved unanimously.

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

"Your letter about Dr. Upgren's connection with the joint project of the Province of Manitoba and the State of Minnesota is acknowledged.

"The Board sees no reason why Dr. Upgren could not continue his connection with this study until it is completed,

11/12/42

-3-

"provided it does not interfere with his work at the Bank. As a general proposition, the study lies within the broad interests of the Federal Reserve System and would have value as throwing a light on regional economic conditions."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with your request, the Board of Governors approves the change in the personnel classification plan of the San Antonio Branch, as submitted with your letter of October 16, 1942."

Approved unanimously.

Letter to Mr. Neil G. Greensides, Acting Chief of the Division of Examination, Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of November 10, 1942, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the Citizens Bank, Marshall, North Carolina, in connection with its application for continuation of insurance after withdrawal from membership in the Federal Reserve System.

"Except in relation to relatively minor violations of the law, the Board's regulations and the conditions of membership to which the bank is subject, there are no corrective programs which have been urged upon the bank and have not been consummated."

Approved unanimously.

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

"The Board has received several inquiries regarding section 10(a)(2) of Regulation W, and these inquiries are discussed below.

11/12/42

-4-

"The first inquiry is whether a Registrant may discount and receive payments upon an obligation which prior to discounting has been renewed or revised pursuant to the provisions of section 10(a)(2) so as to have a maturity which would not have been permissible under the Regulation in the first instance.

"The Board is of the opinion that section 3(a)(3) would not prevent such action by the Registrant, since the renewal or revision is one which is expressly authorized by the Regulation.

"The second inquiry relates to the terms on which a Registrant may make a loan to a debtor to retire his instalment indebtedness to another creditor where the maturity of the indebtedness has already been extended by the other creditor under section 10(a)(2).

"The Board is of the opinion that the Registrant may make such a loan on the same terms as the obligation being retired. The obligation being retired is in conformity with section 10(a)(2); and section 10(c) permits a lender, in making a loan to retire a regulated instalment credit, to extend terms as liberal as the terms of the credit being retired if those terms are in conformity with the Regulation.

"The third inquiry is whether a Registrant who has purchased a delinquent instalment obligation and has exercised a bona fide collection effort, may then revise the obligation under section 10(a)(2) on terms not initially permissible.

"The Board is of the opinion that this may be done, but it should be emphasized that the change in ownership of the paper does not change the responsibility of the holder to make every effort to collect it in accordance with its terms. Furthermore, the revision must not be made on terms longer than are necessary in good faith for the Registrant's own protection.

"The theory of section 10(a)(2) is that an adjustment with the customer should not be prevented if that is the only feasible way in which the credit can be collected. Any such adjustment must be the last resort (except, of course, litigation) and a measure to be taken only after other means of collection have been exhausted.

"Each of the foregoing points with respect to section 10(a)(2) is consistent with the principle of that section, namely, that it may be applied only for the protection of the Registrant who holds the obligation which is in default and who is making the adjustment. If section 10(a)(2) is

11/12/42

-5-

"applied in accordance with the principles herein expressed, it is not believed that any undue weakening of the Regulation will result. On the other hand, if you should encounter any evidence suggesting that Registrants may be using this section improperly, we shall appreciate information as to such situations as well as suggestions as to any action, including an amendment, that you may consider desirable."

Approved unanimously.

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

"In connection with our studies of matters relating to Regulation W we should like to obtain from your bank certain figures with respect to the number of Registrants under this regulation in your district.

"With respect to those who have filed Registration Statements with your bank under this regulation, we should like to know the number of such Statements that were filed between January 15, 1942 (the date as of which the previous tabulation of such Statements was made) and October 31, 1942. In the event that your bank has the figures conveniently available -- but only in that event -- we should also like to have figures that would indicate the distribution of these Registration Statements according to the principal business of the Registrant. We should also be glad to receive any other analyses of these figures that you may happen to have made.

"We should also like to obtain an estimate as to the number of additional persons in your district who are 'Registrants' under Regulation W but who hold general licenses -- i.e., persons who make charge sales of listed articles or who make single-payment loans but who do not extend instalment credit and therefore have not been required to file Registration Statements. We assume that you will probably have made some such estimate already, for your own operating purposes. Other figures that would interest us, in the event that you find it convenient to estimate them, but only in that event, would be rough estimates indicating the number of such persons in the principal lines of business such as apparel stores, dealers in lumber and building materials, and filling stations. It will be quite satisfactory for our present purposes if all of these estimates by lines, and even the over-all estimate, are very tentative; it is not desired at this time that any special research be conducted to develop these figures. At the same time, in case you would care to send along any indication of the basis of estimate, we should be glad to have you do so.

11/12/42

-6-

"The figures desired should reach us by December 1, if possible."

Approved unanimously.

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

"This refers to your letter of November 4 and previous correspondence regarding the application of sections 4(c)(1) and 6(c)(2)(i) of Regulation W to a case where the obligation of a customer is sold by the Registrant and an additional obligation is thereafter entered into by the same customer with the Registrant.

"As you point out, the views which you expressed in your letter of June 4, 1942 to Mr. W. L. Windschanz are the same as the views expressed in the Board's letter S-570. However, as you intimate, the cases are not exactly parallel.

"Although some of the discussion contained in your letters seems to be based on the assumption that some of the obligations which are sold by the Registrant are negotiable instruments, the actual case which you describe in your letter of November 4 appears to be similar to the few other cases which have been brought to our attention in that it involves the assignment of a non-negotiable contract, no notice of the assignment being given to the obligor.

"In such a case it may properly be said that for the purpose of section 4(c)(1) the customer continues to be obligated to the Registrant even though the Registrant has made the assignment, and therefore the obligation arising out of the second transaction should be added to the first in determining the 'aggregate instalment indebtedness' under that section. The same phrase appears in section 6(c)(2)(i), but it seems likely that in cases arising under that section there will not be an assignment of part of the indebtedness by the Registrant.

"In connection with section 4(c), however, the practical result, in certain cases, will be the same whether the above view, or that suggested by your investigator, is adopted. For example, if an instalment obligation having \$10 monthly payments has four months left to run, and an additional item is purchased under separate contract calling for seven monthly payments of \$2 each, there will be a violation of section 4(c) because the instalments will be only \$2 during the last three months of the latter contract, even though the instalments on the 'aggregate' indebtedness during the first four months are sufficiently large to meet the requirements of that section."

Approved unanimously.

11/12/42

-7-

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

"Your letter of November 5, 1942 discussed further the proposed changes in the procedure for designation of defense housing projects for purposes of Regulation W.

"It has been our thought that it would not be desirable to exclude replacement of furnaces from the 'defense housing' exemption if the old furnace is actually worn out and must be replaced in order to obtain adequate heating. The absence of adequate heating would seem to be one of the strongest reasons for considering a dwelling uninhabitable. Moreover, heat is such a basic necessity that we feel we must be very careful about imposing restrictions for this type of product.

"The position of stokers is clearly not as strong, although in some cases where the furnace cannot be operated without a stoker it may be essential. We have been far from satisfied with the way in which the regulation has affected stoker sales but have been impressed by the difficulty of drawing a sharp line in this field. In view of the fact that stoker production was stopped last spring except for production with materials already on hand, we have felt that this situation was not too serious. It will not be long before inventories of stokers will be exhausted.

"We note that in one of your recent investigations you discovered that a Registrant who is engaged in the business of selling and applying Texite and Ply-tex (forms of extra durable plastic paint) had obtained approval from the local office of the National Housing Agency for 36 months' contracts on the application of these products to residential structures. You state that in your opinion the applications were such as would not qualify under Administrator's Order No. 8 and inquire about the status of transactions of this kind.

"Since the Order was issued by the Administrator of the National Housing Agency, it is appropriate that his organization should interpret it, using the local offices for that purpose. If you find cases in which you think there has been some misunderstanding of the Order by a local office, it is suggested that you first discuss the matter with that office and if the matter cannot be cleared up at that point it can be reported to us for reference to the central office here.

"We are sending a copy of this letter to the National Housing Agency."

Approved unanimously.

11/12/42

-8-

Letter prepared for the signature of Chairman Eccles to the Presidents of all the Federal Reserve Banks, reading as follows:

"As you were advised in the wires from Secretary Morgenthau and from me dated November 11, it is contemplated that the activities of the Victory Fund Committees will be greatly expanded.

"In connection with this expanded program I should like to call attention to the meeting held with the Presidents of the Federal Reserve Banks at the Carlton Hotel on September 28 to discuss activities of the Victory Fund Committees. At that meeting I discussed at some length the program of the Committees and expressed the opinion that since the System is vitally interested in the success of the selling program the Federal Reserve Banks would be justified in assuming certain expenses in connection with the program. It is contemplated that expenses of the kind referred to in the letter from Mr. Bell, Under Secretary of the Treasury, dated September 19, 1942, will be reimbursed by the Treasury Department although it now appears that to reimburse the Federal Reserve Banks in full for the expanded activities it will be necessary to obtain a deficiency appropriation. It is understood this will be asked for in due course.

"There are, however, certain expenses which do not come within the terms of Mr. Bell's letter. In this connection, I referred, at the meeting at the Carlton Hotel, to the fact that the Federal Reserve Banks had been able to facilitate the work of the Committees by providing luncheons and dinners at meetings and conferences at the Federal Reserve Banks and Branches and at other points throughout their districts. The Board concurs in my statement that the Federal Reserve Banks are justified in assuming the expenses connected with such meetings when in the opinion of the Presidents to do so would help to make the Government's program a success.

"It was intended following the meeting at the Carlton Hotel to have a committee review the question of expenses connected with the Victory Fund program and to make suggestions with respect to expenses that might be absorbed by the Federal Reserve Banks. In view of the urgency of the expanded program, however, and of the difficulty of getting the committee together, it has been thought best to get a letter out to you promptly so that you would be informed of the views of the Board at the beginning of the expanded program.

11/12/42

-9-

"It will be appreciated if you will keep the Board advised currently of important developments in connection with the expanded Victory Fund program."

Approved unanimously.

Thereupon the meeting adjourned.

Chesler Morrie
Secretary.

Approved:

McCauley
Chairman.