

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 15, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 14, 1942, were approved unanimously.

Memorandum dated December 14, 1942, from Mr. Paulger, Chief of the Division of Examinations, submitting the resignation of L. A. A. Siems as a Federal Reserve Examiner, to become effective as of the close of business on January 4, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Phelan, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"Thank you for your letter of November 23 describing and commenting upon the operations of certain installment vendors and so-called budget companies in your district.

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"In the class of transactions which you describe, all parties (the customer, the store, and the budget company) contemplate that all payments will be made by the customer to the company (which furnishes the customer with a payment book, instructions, etc.), and the store obtains the approval of the company before selling the merchandise because the arrangement is that the company will take over the account without recourse against the store.

"In view of the special circumstances outlined in your letter, we believe that the transaction may be treated as an extension of credit by the budget company and therefore there is no question but that the obligations of a customer incurred for purchases at different stores may be consolidated under Option 2 of section 10(b) by the budget company which holds all the resulting obligations. Also, as you say, these obligations may be added together in determining the 'aggregate instalment indebtedness of one debtor to the same creditor' under section 4(c)(1).

"In the circumstances, it is not necessary that the merchant's records show the terms of payment, and the requirements of Regulation W respecting records will be met if adequate records are preserved by the budget company. However, as you point out, the statement of transaction should be furnished to the customer in less time than two weeks (W-100 and S-477)."

Approved unanimously.

Letter to Mr. Phelan, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of December 4, 1942 (Inquiry No. 22), enclosing copies of letters to your bank from the Western Electric Company of October 27 and November 10, relating to the application of Regulation W to the financing of the repair and maintenance of residential property.

"Briefly, you state that the Company sometimes finds it necessary to buy the residences of its employees or other persons which subsequently are resold to other employees or persons through the medium of unrecorded instalment contracts (a copy of which you enclosed with your letter), pursuant to which the Company retains title until the contract price is paid in full. From time to time, but generally several years after such contracts are entered into, the buyers may request advances of the Company with which to pay for repairs, re-decorations and other items of maintenance. You state that the amount of any such advance, whether paid by the Company

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"to the buyer or directly to the contractor furnishing the materials and services, is added to the unpaid balance owing to the Company under the purchase contract and that provision is made for the buyer to pay such additional amount with or without an increase in the rate of payment under the contract.

"The Board agrees with your view that when the Company advances funds to the buyer with which to pay for the materials and services the Company makes an instalment loan subject to section 6 of the Regulation. The mere fact that in some cases the proceeds of the advance may be paid by the Company directly to the contractor supplying the materials and services would not alter this view. Of course, the disposition of any particular case necessarily depends upon the facts involved. Thus, if the Company itself did the work and added the cost thereof to the unpaid balance of the instalment contract, it is probable that the transaction would constitute an extension of credit arising out of an instalment sale of materials and services listed in Group C of section 13(a), and consequently subject to section 4.

"Section 8(a) of the Regulation is not applicable to the present situation, since neither the contracts of sale of the residence involved, nor the subsequent transactions relating to the repairs, etc., is recorded. In addition, such subsequent transactions are not for the purpose of financing or refinancing the construction or purchase of such residences. However, in the Company's letter to your bank of November 10, it is suggested that the purchase contracts may be made of record, in which event it is the Board's view that the credit in question, in the usual case, would be exempt from the Regulation under section 8(a), including the principles set forth in S-430-a and W-128.

"Among the repairs, etc., sometimes involved in these cases, you refer to the installation of insulating materials. As you know, this may give rise to questions involving the application of section 8(m)."

Approved unanimously.

Memorandum dated December 15, 1942, from Mr. Smead, Chief of the Division of Bank Operations, referring to the approval by the Board on November 28, 1942, of the temporary assignment of Frederick L. Alexander,

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Assistant Chief of the Application and Records Division, Bank Examinations Department of the Federal Reserve Bank of New York, to the Division of Bank Operations for a period of not to exceed two weeks beginning November 30, 1942, with the understanding that the Board would authorize the reimbursement of the Federal Reserve Bank of New York for actual subsistence and transportation expenses incurred by Mr. Alexander incident to his assignment, and recommending, inasmuch as it was necessary for Mr. Alexander to remain at the Board through December 15, 1942, to complete the assignment, that the New York Reserve Bank be reimbursed for actual subsistence and transportation expenses incurred by him during the period November 29, when he left New York, to December 15, 1942, inclusive.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. C. ...
Chairman.