

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, June 26, 1943, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Draper
Mr. Evans

Mr. Morrill, 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:

Memorandum dated June 25, 1943, from Mr. Morrill, submitting the resignation of Mrs. Rose D. Root as a file clerk in the Secretary's Office, to become effective as of the close of business on July 20, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"For your information in connection with Regulation V loans, there is enclosed a photostat of a letter dated June 24, 1943, from the Director of Finance of the United States Maritime Commission, designating Mr. G. H. Nolte as a representative of the Commission to execute certificates of the Commission in the Atlantic Region."

Approved unanimously.

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

"Reference is made to the Board's letter, S-651, dated May 21, 1943 with which was enclosed a copy of a memorandum from the Director of Finance of the United States Maritime

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"Commission, Mr. R. E. Anderson, to the Commission dated May 12, 1943.

"In connection with Condition 4 set forth in Mr. Anderson's memorandum, there is quoted below from a letter received today from the Commission:

'The Legal Division of the Maritime Commission suggests that hereafter the following usual condition approved by the Maritime Commission as a condition precedent to the guarantee of loans pursuant to Executive Order No. 9112 should be changed in order that there will be no conflict with Section 18 of the standard form of guarantee dated April 6, 1943:

"Borrower shall not substantially increase its backlog of orders outstanding as of the effective date of the guarantee agreement unless the financing institution approves the available financing as being adequate to handle such additional orders."

'Hereafter the condition should read as follows:

"Borrower shall not substantially increase its backlog of orders outstanding as of the effective date of the guarantee agreement, except when requested or required by the Government, unless the financing institution approves the available financing as being adequate to handle such additional orders, and the Borrower shall notify the financing institution of the acceptance of additional orders effecting a substantial increase in the Borrower's war production contracts."'"

Approved unanimously.

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

"Several inquiries have been received as to whether the Board's Regulation W, entitled 'Consumer Credit', is applicable to advances made by life insurance companies and general agencies thereof to their agents. The answer is that in some classes of cases the regulation does apply and in others it does not.

"The general rule is that the regulation does apply whenever such advances constitute loans within the meaning of the regulation, unless the loan is exempted by one of the provisions of section 8, and whenever the company or agency

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"making the advance is 'engaged in the business' of making such loans.

"While advances of money are usually loans, companies or general agencies sometimes make advances to agents (as for example during a limited period while the agent is new and his earnings from commissions are small) in circumstances which negative the presumption that the advances are loans. In such circumstances, the agent receives certain payments as compensation for endeavoring to sell insurance, the company or general agency having the right to reimburse itself, if at all, only by deductions from such commissions as would otherwise have been paid to the agent by reason of the successful conclusion of sales. The agent is under no personal obligation, express or implied, to repay the advances, and interest is not charged. The arrangement, in effect, gives the agent a guaranteed minimum rate of compensation. In such cases, it may be said that the advance is not a loan. It will be noted that this interpretation applies only to those cases where the advance is made by the person from whom the expected commission would have been received. Furthermore, in order that there may be no question as to the facts in such cases, the Registrant should have all the terms of the agreement stated in writing and should preserve the writing in his files.

"Even though the advance does not meet the conditions specified in the previous paragraph and so is to be considered a loan, it is possible that it may be exempt under section 8(j) which provides that the regulation shall not apply to a loan for business purposes to a business enterprise which is not for the purpose of purchasing a listed article. One class of cases that would fall within this exemption is illustrated by a loan by an insurance company to its general agent to enable him to pay office rent, salaries, and other office expenses. The exemption would not apply, however, if the money is to be used by the agent to pay his ordinary living expenses.

"In view of the fact that the regulation does not apply to a loan unless made by a person who is 'engaged in the business' of making extensions of credit, the regulation would not in any event be applicable to advances made by companies or general agencies which do not make such advances except in isolated instances. Whether or not such advances are mere isolated transactions is, of course, a question to be decided on the facts of the particular case, and the fact that a company or agency may have an established procedure for handling such advances would be one of the facts to be considered.

"If it is determined on the basis of the foregoing explanation that the company or agency is 'engaged in the business' of making instalment loans subject to Regulation W,

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"registration of the company or agency on Form F. R. 563-a is required under the provisions of Section 3(a) of the Regulation."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. E. ...
Chairman.