

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 29, 1943, at 11:00 a.m.

PRESENT: 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 December 28, 1943, were approved unanimously.

Telegram to Mr. George A. Slaughter, Wharton, Texas, reading as follows:

"Board of Governors has appointed you director of Houston Branch of Federal Reserve Bank of Dallas for three-year term beginning January 1, 1944, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Henry A. Dixon, President of Weber College, Ogden, Utah, reading as follows:

"Board of Governors has appointed you director of Salt Lake City Branch of Federal Reserve Bank of San Francisco for two-year term beginning January 1, 1944, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

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

"Reference is made to Mr. Hill's letter of December 24, 1943, submitting formal notice of withdrawal of the application for membership of The Real Estate Trust Company of Philadelphia, Philadelphia, Pennsylvania.

"In view of the action taken by the bank, the Board will consider the application as having been withdrawn. The papers comprising the application for membership will be retained as a part of the permanent official files of the Board and, in the event that the bank desires to re-submit its application at some time in the future, the exhibits now on file with the Board pertaining to its organization and reorganization need not be duplicated."

Approved unanimously.

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

"Published articles containing misleading and garbled reports of the hearings on the Board's Regulation Q before the Committee on Banking and Currency of the House of Representatives have apparently led to misconceptions of the Board's position with respect to its September ruling. The Board's position has not changed in any respect. It has stated its interpretation of the law and expects all member banks to conform if they are not now conforming and expects the Federal Reserve Banks to take appropriate action accordingly. Unless and until the law is repealed or amended by Congress or some court of appellate jurisdiction decides that the Board's interpretation of the law on the facts of the case published in the September Bulletin is incorrect, there is no reason known to us why the situation should change. A certain press article, which seems to have been particularly misleading, comments upon a colloquy between Congressman Patman, Chairman Crowley of F.D.I.C., Governor Ransom, and Mr. Dreibelbis. Copies of the entire record will be furnished you when published. However, the following colloquy referred to in the press article in question is from the official preliminary

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"transcript of the full record which was furnished the Board by the Committee for correction:

'Mr. Patman. * * * But, Mr. Crowley, if you will, please, answer me this one question: Do not you think where a correspondent bank requires the local bank to keep a certain deposit in order for that local bank to have the exchange charge absorbed up to a certain definite amount--do not you think that is interest; do not you think that is a device to evade the law?

'Mr. Crowley. Let me say I would go with you on that, provided you will go just a little further and apply that to the customers' balances, too.

'Mr. Patman. I will go with you; I will do that, but why--

'Mr. Crowley. But do not get me separated on this service charge thing and this exchange.

'Mr. Patman. But I asked you something else; I asked you a positive question, and I hope you will answer it without reference to the other. I agree with you on that; there is no difference of opinion between us on that, but I hope you will just answer this one question. Suppose, now, the Memphis bank tells the Texarkana bank "Now, we will absorb charges of a thousand dollars a month for you if you will carry a deposit in a certain amount in our bank. If you do not carry but half that deposit, we will only absorb \$500, but we will absorb charges in direct relation or in direct proportion to the deposit carried." Do not you consider that a device to get around the payment of interest?

'Mr. Crowley. In the first place, I do not think that matter of paying exchange has anything to do with balances.

'Mr. Patman. You mean in their agreements with the banks?

'Mr. Crowley. Yes.

'Mr. Patman. You are not answering my question, Mr. Crowley. I am talking about a case where it can be shown there is such an agreement.

'Mr. Crowley. Let me say this: The Federal Deposit will go with the Federal Reserve on a regulation which will include a provision that, in the matter of exchange, exchange can be absorbed provided there is no understanding as to balances, providing in that same regulation they deal

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"with customers' balances as well.

'Mr. Patman. But, Mr. Crowley, you have not answered my question. I think it is a very simple one. Do not you think that would be a violation of law, if it could be shown the bank was doing what I said?

'Mr. Folger. Mr. Chairman.---

'Mr. Patman. Wait a minute. I hope the gentleman (Mr. Folger) won't interfere.

'Mr. Crowley. I am not so sure it is.

'Mr. Patman. You are not so sure it is?

'Mr. Crowley. No, sir.

'Mr. Patman. In other words, suppose, then, that the Memphis bank says "If you will carry a deposit of a certain amount in our bank here in Memphis, Tenn., we will pay any bills you have"--not necessarily exchange, but electric light, water, telephone, or any other kind of a bill--up to \$1,000 a month, if you will carry a deposit of a certain amount in our bank, would not that be a violation of the law?

'Mr. Crowley. Well, I presume if you carried it to that extent; yes.

'Mr. Patman. It would be?

'Mr. Crowley. Yes.

'Mr. Patman. Now, what is the difference?

'Mr. Crowley. But wait just a minute. Really all service charges have gone on the theory that there are certain out-of-pocket expenses that we permit them to pay.

'Mr. Patman. I do not think there is any dispute about that here; I have not heard any. It is only where they are paying a dollar on a thousand-dollar draft or something like that, where it is certain.

'Mr. Crowley. That is what I am getting at--the only fellow you want to apply it to is the little bank; you do not want to apply it to the big accounts; you want to apply it to the little bank and stop right there. You do not want to apply it to Sears-Roebuck, and Montgomery Ward, and concerns like that.

'Mr. Patman. I do. There is no difference between us on that, Mr. Crowley. I say the same law should apply to both; there is no difference of opinion between us on that point. But why bring up the one in answer to the other? What is the difference in this Memphis bank paying a \$1,000 electricity bill for this Texarkana bank, if the

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"Texarkana bank will carry a certain deposit in the Memphis bank, and will only pay \$500 electricity bill if the deposit is just half that much. What is the difference in that and the Memphis bank paying Tom, Dick, and Harry's exchange?"

'Mr. Crowley. Let me ask you this question now: It is my understanding it is your theory if I do not have an agreement with the bank about these balances--

'Mr. Patman. That is right.

'Mr. Crowley. That I can absorb these charges without any violation of law?

'Mr. Patman. Yes, because it would not be a device to get around the payment of interest. And the same way with Sears-Roebuck, Montgomery Ward, or Leo Crowley, if you were doing business with the bank and had no agreement with them.

'Mr. Crowley. Just as a matter of expediency, I would go along with you on that thing; but it would not be my way of meeting a piece of legislation, for this reason: There is no doubt in my mind but what the banks would continue to do this thing, just as they are doing now, and you would have to prove there was an agreement between them. I do not believe there are very many agreements like that between banks.

'Mr. Patman. I am talking, Mr. Crowley, about where there is an agreement. Suppose it was shown that the Memphis bank and the Texarkana bank had entered into an agreement in writing--let us make it as plain and as positive as it can be made--"That the Memphis bank, party of the first part, hereby agrees if the party of the second part will keep on deposit in our bank a certain amount, the first party will pay for the second party up to a certain amount each month and, if the deposit is half that much, the amount paid by the Memphis bank to the Texarkana bank will be half that much;" suppose it could be shown positively in writing, and no question about it, would you say that was a device to get around this law?"

'Mr. Crowley. You mean that the Federal Reserve would change the regulation to cover that point?

'Mr. Patman. What is that?

'Mr. Crowley. That the Federal Reserve would change their regulation to cover that point?

'Mr. Patman. I do not know; you know more about that than I do. But I am just asking you the question, Mr.

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"Crowley, and if you will answer it, I will appreciate it.

'Mr. Crowley. First, I personally do not feel that the absorption of these exchange charges has anything to do with that regulation at all.

'Mr. Patman. Well, Mr. Crowley, if you will, please answer that question. That is plain. I am telling you here is a hypothetical case where there are no ifs, ands, and buts about it. They have made a positive, plain agreement in which the correspondent bank will pay for the local bank a certain amount each month if the deposit is a certain amount, according to their standards and, if the deposit is just half that--where there is no doubt about it; it is plain, and the parties agree to it and there is no dispute? Would you say that was a violation of the law?

'Mr. Crowley. Well, I presume it would be. Certainly it would be in the spirit of the law.

'Mr. Patman. That is right. And what would be your judgment if you were head of the Federal Reserve Board? What would you do?

'Mr. Crowley. If I were head of the Federal Reserve Board, first, if I had any doubts in my mind, I would get my law changed.

'Mr. Patman. You would get the law changed?

'Mr. Crowley. I would get it defined. Here is what happens--'

"Subsequently the following occurred:

'Mr. Patman. (addressing Mr. Ransom) Now what is your idea about that? If there were no understanding at all about the payment of any amount; just say, for instance, if you carry a deposit with me, or with my bank, we will say, and there is no understanding about it, what is your idea of that?

'Mr. Ransom. Mr. Patman, let us take this illustration. One of the correspondent banks announces that it will absorb all exchange or any other out-of-pocket charges for any customer regardless of whether they have an account of any size. As far as I am concerned, I can say that we have nothing whatever to do with it as related to this law. Now the mere fact they do not do that I think completely proves the case.'

"Still later the following occurred:

'Mr. Ransom. That was not exactly what I said, Mr. Chairman. I said, for example, if a bank did absorb all exchange for all customers, regardless of other items in the account, and regardless of any payment.

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"I would like as a specific answer to Mr. Crowley's question, to ask the general attorney for the Board if he will answer that.

'Mr. Patman. Let us hear from the general attorney; may we have his statement?

'Mr. Dreibelbis. Mr. Chairman, I would like to say that where the absorption of exchange is not related to compensation for the use of somebody else's funds it is not interest.

'Mr. Patman. It is not interest and is not a device.

'Mr. Dreibelbis. It is not a device.

'Mr. Patman. And it would not be a violation.

'Mr. Dreibelbis. Where it does not involve compensating some one for the use of his funds.'

"This ends the quotations from the transcript.

"In order that there should be no misunderstanding of the Board's continuing position, the following is a restatement thereof:

(1) In 1937 the Board's Regulation Q and the corresponding regulation of the FDIC were amended by providing that for the purposes of such regulation 'interest' should mean 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit.' The purpose and effect of this amendment were to rest the meaning of the term 'interest' squarely on its meaning as a matter of general law and to deal with specific cases as they might arise upon the facts involved in such cases.

(2) The Board's September ruling followed the procedure outlined in the 1937 joint statement of the FDIC and the Board. The facts of the case were developed in due course of examination of a member bank. The Board has heard little, if any, criticism directed at the conclusions it expressed with respect to the application of the law to the facts of that case. The Board does not know how it suspends or defers an opinion that it has expressed after long and careful study and which it regards as correct.

(3) The ruling is applicable alike to all member banks whose practices come within the scope of the ruling. The position of the Board continues to be that, in due course of examination of banks, violations of this statute will be investigated, reported, and treated in the same manner as are any other violations of Federal laws relating to banks.

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"Since the Board has entrusted to the Federal Reserve Banks the function of examination of State member banks under your direction it expects that you will promptly review and follow up any information that may come to the attention of your Bank from which you should have reason to believe that any State member bank in your district is following a practice of the kind described in the ruling published in the September 1943 bulletin. If an existing examination report discloses sufficient facts to justify the belief that a State member bank is violating the law, you should take the matter up at once with the bank involved and endeavor to obtain its prompt correction of the practice. If the available information does not establish such facts and you believe that the practice exists, you should arrange to have made as soon as practical an examination or investigation which will disclose the facts and thereafter handle the matter as you would any other violation.

"This wire is being sent you because we have received several inquiries from Presidents of Federal Reserve Banks, and you may use the foregoing statement of the Board's position to correct any misconception brought to your attention."

Approved unanimously.

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

"This is to acknowledge receipt of your letter of December 23, 1943, enclosing a copy of a letter received by you from Mr. M. M. Meek, President of the Citizens National Bank of Abilene, Texas, together with a copy of your reply, regarding the absorption of exchange charges in cases in which the parties for whom the items were handled cannot be located, or where the expense of passing the charges back to the proper parties is greater than the amount involved.

"The views expressed in your letter to Mr. Meek, which it is understood you intend to use in answering similar inquiries, appear to be generally in accordance with the Board's position in this matter."

Approved unanimously.

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

"You will find enclosed a copy of a memorandum from the War Department, dated December 22, 1943, signed by Colonel Paul Cleveland, Chief, Advance Payment and Loan Branch, regarding the accrued interest on guaranteed loans which have been purchased by the War Department pursuant to Section 1, 3 or 7 of guarantee agreements. It will be appreciated if you will send the requested statements to the Board for forwarding to the War Department."

Approved unanimously.

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

"Retel December 24, procedure set forth in letter S-502 of June 3, 1942, regarding publicity relating to V loan operations, still in effect. In accordance therewith, no publicity should be given out by Reserve Banks with respect to such operations unless and until they are requested to do so by the War Agencies or the Maritime Commission."

Approved unanimously, together with a telegram to the Presidents of all the Federal Reserve Banks, except Cleveland, quoting the above wire for their information.

In accordance with the action taken at the meeting of the Board on December 28, 1943, and the procedure suggested in the Board's telegram of that date to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, the issuance of the following order was approved by unanimous vote:

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"THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Washington, D. C.

Regulation W - In Relation To
Consumers Home Equipment Co., Detroit, Michigan.
ORDER SUSPENDING LICENSE

"Consumers Home Equipment Co., having appeared by its president, A. B. Chereton, in connection with alleged violations of Regulation W of the Board of Governors of the Federal Reserve System (hereinafter called the 'Board'), and having waived notice and opportunity for hearing before the Board and consented to the issuance of this Order for the suspension of its license, and having agreed that:

1. It was at all times mentioned herein and now is engaged in the business of making instalment sales of listed articles through salesmen, with offices, stores or branches located at --

Flint, Michigan (1327 South Saginaw Street)
Grand Rapids, Michigan (112 South Division St.)
Chicago, Illinois (1412 South Michigan Avenue)
Detroit, Michigan (4801-19 Woodward Avenue)
Indianapolis, Indiana (401 North Capital Ave.)
Cleveland, Ohio (1262 Ontario Street)
Cincinnati, Ohio (120 West Seventh Street)
Columbus, Ohio (495 North High Street)
Louisville, Kentucky (224 West Walnut Street)
Pittsburgh, Pennsylvania (1912 Murray Avenue)
Altoona, Pennsylvania (1716 - 11th Avenue)
Buffalo, New York (715 Main Street)
Erie, Pennsylvania (14th and Peach Streets)

2. It duly filed the Registration Statement required by the Board's Regulation W and was at all times mentioned herein and now is subject to such Regulation;

3. Prior to December 1, 1943, it failed to comply with Regulation W in a number of instances; and

"Said Consumers Home Equipment Co. having further agreed that during the period of suspension of its license under this Order it will close all of its offices, stores and branches, including but not limited to those listed above, and that, upon resumption of business following the termination of this suspension period, it will conform its business to the requirements of the Regulation:

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"The Board, having considered the consent, representations and agreements of the party named, and under authority of section 5(b) of the Act of October 6, 1917, as amended, and the Executive Order of the President No. 8843, hereby orders:

1. That the license of said Consumers Home Equipment Co. issued pursuant to the Board's Regulation W be and the same is hereby suspended for the period commencing at 6 A.M. on January 2, 1944 and ending at 6 A.M. on January 9, 1944, unless said Order is sooner terminated by the Board: Provided, that this Order during the suspension period shall not prohibit (a) the carrying on of regular office and accounting work, (b) the receipt of any payments through the mails or through the normal and usual collection facilities which have heretofore been maintained, and (c) the making of payments on any obligations, including obligations to employees for salaries or wages;

2. Any terms used in this Order that are defined in Regulation W shall have the meaning therein given them.

"By order of the Board of Governors of the Federal Reserve System, this 29th day of December 1943.
(SEAL) (Signed) S. R. Carpenter,
Assistant Secretary.

"I, the undersigned, A. B. Chereton, represent that I am the president of Consumers Home Equipment Co. described in the aforesaid Order and that, having full authority to do so, I do hereby confirm the agreements and representations set out in the aforesaid Order and consent to its issuance.

CONSUMERS HOME EQUIPMENT CO.
(By) A. B. Chereton,
President."

In connection with the above action, unanimous approval was also given to the following statement, with the understanding that it would be handed to the press for release in the morning papers of Friday, December 31, 1943, and that it would be wired to the Presidents

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of all the Federal Reserve Banks and to the officers in charge of all branches of Federal Reserve Banks with the statement that they were at liberty to give the release such local publicity as appeared to be desirable:

"The Board of Governors of the Federal Reserve System has suspended, for the calendar week commencing on January 2, 1944, the license of the Consumers Home Equipment Co., issued under the Board's Regulation W. This company which has its Head Office at 4801-19 Woodward Avenue, Detroit, Michigan, sells merchandise on an instalment basis through house to house canvassing salesmen operating from its Head Office and branches located at --

Flint, Michigan (1327 South Saginaw Street)
 Grand Rapids, Michigan (112 South Division St.)
 Chicago, Illinois (1412 South Michigan Avenue)
 Indianapolis, Indiana (401 North Capitol Avenue)
 Cleveland, Ohio (1262 Ontario Street)
 Cincinnati, Ohio (120 West Seventh Street)
 Columbus, Ohio (495 North High Street)
 Louisville, Kentucky (224 West Walnut Street)
 Pittsburgh, Pennsylvania (1912 Murray Avenue)
 Altoona, Pennsylvania (1716 - 11th Avenue)
 Erie, Pennsylvania (14th and Peach Streets)
 Buffalo, New York (715 Main Street)

"The Board, acting under authority of section 5(b) of the Act of October 6, 1917, and the President's Executive Order No. 3843, ordered the suspension of the license because of failure to comply with the provisions of Regulation W with respect to credit sales. All of the terms of the Order were agreed to by the Registrant, who has given his assurance that he will hereafter comply with all the provisions of the Regulation.

"The violations, charged by the Board, were numerous and included the manipulation of prices and records in order to avoid the down payment requirements and to make it appear that the related transactions conformed with the Regulation, as well as a lack of diligence in otherwise applying the down payment, minimum repayment and maximum maturity requirements of the Regulation.

"The Registrant admitted negligent violations of the Regulation, but denied that any such violations were willful.

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"Under the Order, the company will be prohibited from making sales or accepting orders during the period of suspension of the license, and will thereafter be subject to close supervision. The terms of the Order do not prevent payment of obligations owed by the company, including salaries and wages to employees, normal accounting operations or the receipt of collections on accounts receivable."

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

"In order to provide current figures of bank deposits by counties, similar to data furnished pursuant to Board's telegram of January 12, 1943, please compile statement, arranged by counties, showing as of current December call date in even dollars (1) demand deposits of individuals, partnerships, and corporations, item 13 in call report, and (2) time deposits of individuals, partnerships, and corporations, item 14 in call report, as reported by State member banks. Deposits of branches located outside head office counties should be included in counties in which the branches are located, rather than in head office counties. Any city that is not a part of a county, and any city and county forming a single political entity, should be treated as a separate county for the purpose of this compilation. Statement should be mailed in time to reach Washington by February 10. Figures for any county not then available should be wired as soon as obtained. State member bank figures will be combined by Treasury with those covering other banks.

Approved unanimously.

Letter to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Receipt is acknowledged of your letter of December 22 enclosing a copy of the report of an appraisal of 99 - 111 Milk Street and 6 - 12 Pearl Street, Boston, Massachusetts, as of December 20, 1943, by Philip E. Bennett,

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"from which it is noted that in Mr. Bennett's opinion the property has a present fair cash value of from \$331,000 to \$358,000. You stated that you hoped that we would find that this appraisal covered the requirements of the Board. I assume that this expression was used in inadvertence because in my letter of December 16 the Board's action was by way of expression of opinion that it would be desirable from the standpoint of the protection of the bank's record in connection with the acquisition of this property for you to obtain, before the transaction is consummated, an independent appraisal.

"I understand from our conversation of December 23 that, in addition to being satisfied with Mr. Bennett's qualifications for this purpose, you are also satisfied with his report and the opinion expressed in it. In view of this, the Board is glad to note that the proposal to purchase the real estate in question at a cost of \$300,000 appears to be fully supported by the appraisal."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as fol-

lows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 15, 1943, for printing of Federal Reserve notes of the 1934 Series in the amounts and denominations stated for the Federal Reserve Bank of Kansas City:

Denomination	Number of sheets	Amount
\$500	800	\$4,800,000
1000	500	6,000,000"

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

[Signature]
Vice Chairman.