A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 8, 1944, at 11:00 a.m.

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

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:

Memorandum dated February 7, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mrs. Marguerite Sailor be appointed as a clerk-stenographer in that Division on a temporary basis for an indefinite period, with basic salary at the rate of $1,560 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination and subject to a satisfactory check of her references.

Approved unanimously.

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

"There is enclosed a copy of a letter received by Governor Ransom from Mr. Charles A. Faircloth, Vice President of The National State Bank of Elizabeth, New Jersey, dated January 14, 1944, concerning the absorption of exchange charges in a case in which the costs of collecting the charges would exceed the amount absorbed.

"As you know, it is the Board's position that the absorption of exchange charges by a member bank constitutes a payment of interest only if it involves a payment to a depositor as compensation for the use of the funds constituting a deposit. It is possible that in some cases exchange charges may be absorbed, not for the purpose of compensating a depositor for the use of his funds, but simply because the cost of collecting the charges would exceed the amount absorbed. However, the question whether the practice of absorbing exchange charges involves a payment of interest in violation of the law and the Board's Regulation Q is one which must be determined in each case on the basis of all the facts and circumstances involved in that case.

"It will be appreciated if your bank will make appropriate reply to Mr. Faircloth's letter in the light of the views expressed above."

Approved unanimously.

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

"This refers to your letter of January 6, 1944, enclosing a letter from Mr. Goodrich, attorney for Consumers Home Equipment Co., requesting answers to two questions in connection with credit selling practices of his client.

"The first question is whether the proposed procedure described in Mr. Goodrich's letter will establish a 'cash price' of $6.00 or less for certain articles so that no down payment will be required, the proposed procedure being, in brief, to print on the sales slips and on the contracts a statement to the effect that the article listed thereon may be purchased for the cash price shown thereon, and to instruct salesmen, and the 'verifiers' who follow them, to inform the customer of the option to purchase for the cash price. Mr. Goodrich is frank to say that he cannot be sure how well the salesmen and others will follow these instructions in view of the fact that it is against their interest financially, nor can he say whether very many of the customers will take the option since they probably are so situated that the instalment method is much more desirable to them. Also Mr. Goodrich devotes a number of paragraphs to an attempt to explain why the time price should

"be as high as $8.95 for an article which sells for cash for $5.95.

"The regulation defines the 'cash price' as 'the bona fide cash purchase price' and, as the proposed reply which you enclose says, Mr. Goodrich's letter does not show that $6.00 would be the bona fide cash purchase price. As you know, there have been no published rulings on this precise point, but it is clear that one or two sales made for the purpose of circumventing the down-payment requirement of the regulation would not, by themselves, establish a 'bona fide cash purchase price'. It seems likely, as your proposed reply would point out, that there would not be any noticeable number of sales in view of the circumstances in which the offer would be made. Of course, certainty on this point would not be possible in the absence of actual experience, but the fact that there is such a very large spread between the time price and the cash price indicates that the matter should be scrutinized in order to ascertain that it is not a mere device. For example, you enclose a copy of a bulletin issued to salesmen by another company which begins with the sentence 'In making a sale to a customer of a $6.95, $7.95 or $8.95 article, be sure to inform her that the cash price is $6.00.' A statement of this kind immediately casts suspicion on the bona fides of the cash price of $6.00.

"In the example given by Mr. Goodrich, if it is assumed, as seems likely, that contracts for the sale of the articles in question would usually run for not more than four months, the amount which purports to be the finance charge, namely, the difference between the time price and the so-called cash price, would represent a charge for credit at a rate of about 300 per cent per annum. This amount is so large that the presumption is against its acceptability as a measure of the true finance charge. This does not mean that there cannot be a cash price which is lower than the time price, even where there are few if any sales for cash, but it does mean that where there are virtually no sales for cash, the Registrant should not be allowed to assert that the cash price is considerably less than the time price in the absence of evidence justifying the spread.

"It is believed that additional information will be necessary before the Board can arrive at an opinion as to what figure would be the appropriate cash price for the article in question. Some of the questions which would need to be explored are:

"1. What general principle has been used in setting time price-cash price differentials?

2. What are the time price-cash price differentials for other items of both higher and lower cost?

3. What are the maturities of the contracts?

4. What is the actual over-all cost of collection?

5. What is the actual over-all money cost?

6. What is the credit loss percentage?

7. Why are the salesmen paid a commission on the so-called finance charge?

8. What practices with respect to finance charges are followed by competitors in the same ('door-to-door') field?

9. What finance charges would be made for similar articles sold by the most nearly comparable vendors not in the same field?

These questions are merely illustrative, as your discussions with Mr. Goodrich will in all probability suggest other lines of inquiry.

"The other question raised by Mr. Goodrich relates to three sets of kitchen utensils, each of which is represented to have a cash price of less than $6.00 but which are often sold together. Mr. Goodrich's letter says that some of the pieces in the first set will perform substantially the same service as some of the pieces of the second set, although this is not true as to all the pieces nor is it true as to the pieces in the third set.

"The question whether articles comprise a set or group within the meaning of section 12(1) of the regulation is often a very difficult one. In the present instance, it is not clear from Mr. Goodrich's letter whether these articles are 'commonly considered, sold, or used as a single unit'. The case is not so definitely within the meaning of this language as it would be if each unit consisted of a one-place service of dinnerware so that six sets, sold together, would constitute a six-place service. However, this is a field in which almost no two cases are alike, and your bank will be in a better position to decide the question after seeing the sets and checking trade practices in connection with sales of like articles."

Approved unanimously.

Letter to Honorable Abe Murdock, United States Senate, reading as follows:

"This is in reply to your letter of January 29, 1944, with which you enclosed a letter from Mr. G. E. Steffensen, Manager of the Installment Loan Department, The Continental National Bank and Trust Company of Salt Lake City, Utah, concerning the Board's Regulation W which deals with consumer credit. Mr. Steffensen refers particularly to the way in which the regulation affects the financing of home improvements.

"Regulation W, since May 6, 1942, has prescribed a maximum maturity of 12 months for home improvement contracts. Certain contracts have been exempted from this requirement, among which are any contracts which the National Housing Agency designates as being for 'defense housing'. The 'defense housing' exemptions until November 15, 1943 included among other things the repair of homes in Private War Housing Priority Localities where the homes would become uninhabitable if the repairs were not made. This exemption was seriously abused and was removed when an analysis demonstrated that there were practically no projects being undertaken under it which actually qualified for the exemption.

"Mr. Steffensen now proposes that the Board and the National Housing Agency go further than to restore the situation existing before November 15, 1943, which itself was highly unsatisfactory. He wishes all restrictions to be removed, which, as he indicates, means practically that credit is put back to 36 months.

"We have always been mindful of the desirability of encouraging home owners to keep their properties in good condition, but we have also been conscious of the fact that other considerations in time of war make it impossible in the national interest to permit unrestricted use of credit for such purposes. As you know, Regulation W was put into its present form in May 1942 to implement that part of the President's 7-point anti-inflation program which stressed the need to 'discourage credit and instalment buying'. It applies to all the principal forms of consumer credit and its main purpose is to restrain the addition of credit dollars to a volume of spending power in the hands of the consuming public that is already excessive in comparison with the limited supplies of consumers' goods of all kinds that are available. In this connection, it should be mentioned that an extension of credit adds to the funds available to the public as a

"whole to purchase goods of all kinds, no matter what the purpose of the particular credit.

"In addition it has been our belief that exceptions to the application of restraint must be based on considerations of particular importance to the war effort and that 'necessity' must be measured by wartime standards. In many fields replacement and maintenance have had to be postponed and in other respects the public has had to get along with less than it had in peacetime. Yet with maturities for credit of thirty-six months available, it would appear that, at existing income levels, even more demand for repairs and improvements would be generated than in peacetime.

"It is difficult to see how any substantial relaxation in this field can be reconciled with the present national policy of 'holding the line' against inflation. Nevertheless, we recognize the possibility that there may be cases in which the present terms of the regulation create real hardship even as tested by wartime standards, although the actual instances brought to our attention have been almost non-existent. What we need is help in isolating the types of cases that justify some special treatment and help in devising a plan to take care of them without opening the door to many cases that do not merit special treatment.

"You will understand that the various aspects of the question are under continuing study, as they have been since the regulation was first adopted, and we are glad to consider carefully any suggestions that may be brought to our attention.

"In accordance with your request, we are returning Mr. Steffensen's letter and we are enclosing an extra copy of this letter for your use if you wish to transmit it to him. If there is any point on which you would like to have additional information, we should be glad to furnish it."

Approved unanimously.

Memorandum dated February 5, 1944, from Mr. Smead, Chief of the Division of Bank Operations, recommending, for the reasons stated therein, that the following changes be made in the weekly condition

statement of the Federal Reserve Banks:

1. Change in Reserve Bank credit items in tabular statement at the bottom of the first page:

Present Captions	Proposed Captions
Bills discounted	U. S. Govt. securities (incl. guar. sec.)
U. S. Government direct obligations	Loans, discounts, and advances
U. S. Government guaranteed obligations	Other Reserve Bank credit
Industrial advances (not including ___ million commitments)	Total Reserve Bank credit
Other Reserve Bank credit	
Total Reserve Bank credit	

2. Change in Reserve Bank credit items in condition statement:

Present Captions	Proposed Captions
Bills discounted:	Discounts and advances
Secured by U. S. Govt. obligations, direct and guaranteed	Industrial loans
Other bills discounted	U. S. Govt. securities:
Total bills discounted	Bills
	Certificates
Industrial advances	Notes
U. S. Government securities, direct and guaranteed:	Bonds
Bonds	Total U. S. Govt. securities (incl. guar. sec.)
Notes	
Certificates	Total loans and securities
Bills	
Total U. S. Government securities, direct and guaranteed	
Total bills and securities	

3. Change liability item "F. R. notes in actual circulation" to "Federal Reserve notes".

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Donald Ranson.
Vice Chairman.