

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 28, 1945, at 3:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Connell, General Assistant in
the Secretary's Office
Mr. Thurston, Assistant to the Chairman
Mr. Parry, Director of the Division of
Security Loans
Mr. Vest, General Attorney
Mr. Townsend, Assistant General Attorney
Mr. Brown, Assistant Director of the
Division of Security Loans
Mr. Chase, Attorney
Mr. Wyatt, General Counsel

ALSO PRESENT: Messrs. Hodge and Heath, Assistant General Counsel and Assistant Cashier, respectively, of the Federal Reserve Bank of Chicago

Mr. Ransom referred to the consideration that had been given recently to the reports of continued violations of Regulation W, Consumer Credit, by the Consumers Home Equipment Company of Detroit, Michigan, and its subsidiaries and to the arrangements that had been made for an informal conference with representatives of the company at Chicago on July 10, 1945. He said that the unsatisfactory record of the company as disclosed by the investigations made of its offices in the Chicago district presented certain questions of procedure, that at

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his request Messrs. Hodge and Heath of the Federal Reserve Bank of Chicago had come to Washington and had conferred with him and representatives of the Board's staff on the matter, and that this meeting had been called for consideration by the Board of the procedure that should be followed in the interest of bringing the practices of the company into compliance with the Regulation and in the interest of enforcement of the Regulation generally.

In response to Mr. Ransom's request that he state the alternative legal procedures that would appear to be desirable, Mr. Townsend said that if there was to be a legal test of the authority of the Board to prescribe Regulation W, the case against the Consumers Home Equipment Company was about as good a case as could be found. With respect to the legal steps that might be taken by the Board, Mr. Townsend pointed out that, while it had been an appropriate policy of the Board up to this time to concentrate on an educational program to bring about compliance with the Regulation, the situation now seemed to require more emphasis on enforcement sanctions. He pointed out that the Consumers Home Equipment Company had a record of continuous and flagrant violations both before and after a consent closing had been worked out in 1943. He said that under the Executive Order on which Regulation W is based the Board has the specific power (1) to revoke the license of the registrant or (2) to refer the matter to the Department of Justice for criminal prosecution. While the case against the company might justify a criminal prosecution, it was Mr. Townsend's feeling

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that the extent of evidentiary requirements for such a case might make it difficult to convict the men at the head of the organization.

Having in mind the potential influence that could be exerted by the General Finance Corporation (which had made advances to the registrant in an amount of approximately \$1,500,000), Mr. Townsend recommended that at the forthcoming conference in Chicago on July 10th an effort should be made to have the registrant put under consent judicial restraint through injunctive proceedings. He thought that if consent were given to a decree of this kind, it would be appropriate to submit the matter to the Federal Court in Detroit, where the home office of Consumers Home Equipment Company was located, and that the sweep of the injunction decree could be made to apply to individuals as well as to the corporation. If that were done, he said, it would put the company in a position where, if thereafter it violated the Regulation and it was clear that they were doing it as a matter of policy, such violations could be brought to the attention of the court under a contempt proceeding, in which event the persons responsible for the violations could be sent to jail or subjected to heavy fines. If the registrant were not willing to consent to the injunction, however, he recommended that the Board should then institute a proceeding under the Regulation to determine whether the registrant's license should be revoked.

There ensued a discussion of the type of business being conducted by the Consumers Home Equipment Company, the manner in which

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the business was carried on, and the nature of the violations.

Mr. Ransom stated that in preparing the evidence in connection with any proceeding that might be undertaken, it would be helpful if the Board could have the cooperation of all the Federal Reserve Banks in whose districts the Consumers Home Equipment Company had offices in developing a more complete record as to the nature and extent of violations of the Regulation in the various offices of the registrant and its subsidiaries, and that for that purpose the following telegram had been prepared to the Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Chicago, and St. Louis:

"Board today decided to proceed with vigorous enforcement measures against Consumers Home Equipment Co. of Detroit, Michigan, and its subsidiaries for violations of Regulation W. Conference with company is now scheduled for July 10 at Chicago. Decision is that in case Registrant is unwilling to submit to consent judicial injunction Board will proceed with suspension hearing as provided in the Regulation. In either event cumulative evidence respecting violations by Registrant's organization is of paramount importance. Most recent investigation by Chicago Bank has turned up both old and new forms of violations. Excerpt from Chicago Bank's letter describing violations is being sent to you by air mail. It is believed that the particular types of violations there discovered may be common practice throughout organization. Board feels that after conference now scheduled for July 10th Registrant's records may not be readily accessible. Consequently, the Board wishes to secure as much evidence as possible concerning these particular violations. It is accordingly requested that your bank cause an immediate investigation to be made of company's branches and subsidiaries in your district. In seeking the particular type of violations called to our attention by Chicago, it may be helpful to you to discuss the matter over the telephone with the staff at that Bank. The Board is advised that,

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"if you so desire, the Chicago Bank is agreeable to making available an investigator familiar with this latest type of Consumers' violations. It is requested that a report of your investigation be forwarded to the Board as promptly as possible including photostatic or other copies of such contracts and records as may be needed fully to explain the same. Whatever material reaches Board by July 7 or Chicago Bank by July 9 will be specially useful."

Mr. Ransom read the telegram and stated that it was his view that it would be difficult to enforce Regulation W in the future when the public reaction against wartime regulations was certain to increase, unless there was in existence at least one precedent of strong enforcement and the application of a severe penalty. For that reason it was his suggestion that when Messrs. Townsend and Brown go to Chicago on July 10 for the conference with the representatives of the Consumers Home Equipment Company, they be authorized in their discretion to say to the representatives of the registrant that if the Consumers Home Equipment Company is not willing to agree to a consent judicial injunction, the Board would proceed immediately to hold the necessary hearing to determine whether the license of the company should be revoked.

In response to an inquiry by Mr. McKee, there was discussion of the question whether an effort should be made first to obtain a consent injunction or whether it would not be better in the interest of the general enforcement of Regulation W to proceed immediately with the proceeding to revoke the license, with the realization, of course, that it probably would result in a court contest.

Mr. Townsend said that he would prefer the injunction procedure,

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particularly in view of the fact that if under that procedure the case should get into the courts it would be a case of the United States against the registrant for contempt of court and there would be a much greater probability of the Board's position being upheld.

Chairman Eccles stated that undoubtedly, with the approach of the end of the war, there would be a substantial increase in the number of violations of Regulation W, and if the Board was to be effective at all in its enforcement policies, it was essential that any questions as to the authority for the Regulation be removed. If it should be the decision of the courts, he said, that there was an insufficient legal basis for the Regulation, the matter could be presented to Congress for such action as it might wish to take.

Mr. Vest commented that any challenge that might be made in the courts of the Board's authority to issue Regulation W could also be advanced against the authority for any regulations that might be adopted under the proposed executive order relating to the restriction of credit for the purchase of real estate, and that this was an additional cogent reason for settling any serious challenge of the Board's authority under Regulation W.

After further discussion of other possible courses of action, upon motion by Mr. Ransom, Messrs. Townsend and Brown were authorized at the meeting with representatives of the Consumers Home Equipment Company on July 10, 1945, to proceed in the manner proposed by Mr. Ransom.

Unanimous approval was also given to the telegram to the Presidents of seven of the

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Federal Reserve Banks in the form set forth above.

At this point Messrs. Parry, Vest, Townsend, Brown, Chase, Wyatt, Hodge, and Heath withdrew from the meeting.

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 27, 1945, were approved unanimously.

Memorandum dated June 27, 1945, from Mr. Carpenter submitting the resignation of Miss Emily A. McAllister, a file clerk in the Secretary's Office, effective as of the close of business on July 14, 1945, and recommending that the resignation be accepted as of that date with the understanding that an appropriate lump sum payment will be made for the accumulated and accrued annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

Letter to the board of directors of the "Farmers Bank & Trust Company of Indiana, Pa.", Indiana, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

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"7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$514.06 as shown in the report of examination of such bank as of May 5, 1945, made by an examiner for the Federal Reserve Bank of Cleveland."

The letter also contained the following special comment:

"It appears that the bank may possess certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to act as surety in certain circumstances. Attention is invited to the fact that if the bank desires to exercise any power not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Farmers Bank & Trust Company of Indiana, Pa.', Indiana, Pennsylvania, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Secretary of Banking for the Commonwealth of Pennsylvania, for his information.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations, the savings account mentioned on Page 16 of the report of examination for membership."

Letter to the board of directors of "The Savings & Trust Company of Indiana", Indiana, Pennsylvania, stating that, subject to

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conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,321.02 as shown in the report of examination of such bank as of April 21, 1945, made by an examiner for the Federal Reserve Bank of Cleveland."

The letter also contained the following special comment:

"It appears that the bank may possess certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to act as surety in certain circumstances. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Savings & Trust Company of Indiana', Indiana, Pennsylvania, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Secretary of Banking for the Commonwealth of Pennsylvania for his information.

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"It has been noted that the trust department is not well organized, that there is no functioning trust committee and that some of the records are poor. It is assumed in this connection that the Reserve Bank will, in the regular course of supervision, make such suggestions as may be necessary to assure administration and supervision of trust accounts in accordance with accepted standards of policy and practice.

"It is assumed also that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations, the savings account mentioned on page 16 of the report of examination for membership."

Letter to the board of directors of "The Citizens State Bank", Sturgis, Michigan, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Citizens State Bank', Sturgis, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of the Banking Department for the State of Michigan, for his information.

"The report of examination of the trust department indicates that some operating details need improvement and that supervision by directors is perfunctory. In both the report and your presentation memorandum it is

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"stated that no set policies or formal organization are required for the operation of the small department. Even though the volume of trust business is relatively small, the affairs of the department should, of course, be administered and supervised in accordance with accepted standards and it is assumed that appropriate suggestions in this connection will be made to the bank in the regular course of supervision.

"It has been noted that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts mentioned on page 16 of the report of examination for membership."

Letter to the board of directors of the "Bank of Ripley", Ripley, Tennessee, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis. The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds and to guarantee titles to real estate. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, for transmission through the Federal Reserve Bank of St. Louis.

Letter to Mr. S. D. Nichols, Nichols Shoe Company, St. Louis, Missouri, reading as follows:

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"This is in reply to your letter of June 15, 1945, in which you ask a series of questions regarding margin accounts.

"The questions arise from the fact that, under the rules of certain stock exchanges, 100 per cent margin is required on certain low-priced stocks and lower percentages on other stocks while under Regulation T of the Board of Governors of the Federal Reserve System, 50 per cent margin is required on all securities (40 per cent prior to February 5, 1945). If the distinction between the requirements of the stock exchange and the requirements of the Board's Regulation T are borne in mind, it is believed that the questions may be understood and answered more easily.

"Under Regulation T as it stands at present, any margin above 50 per cent of the current market value of the securities in the account can be withdrawn at any time. In addition, if a security in an undermargined account is sold, the broker may permit the customer to withdraw on the day of the sale an amount of cash equal to 50 per cent of the sale proceeds. In neither case does the amount of the permissible withdrawal depend upon the amount of the margin deposited at the time the security was purchased.

"In addition to meeting Regulation T requirements, withdrawals must also meet the requirements of the stock exchange rules. In some cases these will not permit as much of a withdrawal as is permitted by Regulation T. What is therefore required is a calculation of the amount withdrawable under both sets of rules and the lower amount of the two is the governing figure.

"The questions that have come to our attention indicate to us the likelihood that the difficulties experienced have arisen from differing interpretations of the stock exchange rules. These having been changed recently, it is natural that there should be some confusion at the outset and it would be helpful to the stock brokers if you would call their attention to the discrepancies so that they can iron out their differences.

"If you should have further questions about Regulation T, we suggest that you communicate with the Federal Reserve Bank of St. Louis, which is in charge of the administration of Regulation T in your district."

Approved unanimously.

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

"There is enclosed a copy of a memorandum from the War Department dated June 9, 1945, signed by Colonel Paul Cleveland, Chief, Advance Payment and Loan Branch, regarding extensions of maturities of 1942, 1943 and 1944 V loan guarantee agreements."

Approved unanimously.

Telegram to Mr. Baker, Assistant Cashier at the Federal Reserve Bank of Minneapolis, reading as follows:

"Your wire June 27. Your interpretation of section 13(f) of Regulation W is correct."

Approved unanimously.

Memorandum dated June 27, 1945, from Mr. Hammond, Assistant Secretary, reading as follows:

"The Federal Reserve Bank of New York is purchasing accident policies insuring Mr. Knoke and Mr. Rozell for the duration of their trip to Europe, and Mr. Rounds has asked us if we wish to get a similar policy for Mr. Goldenweiser. It pays a lump sum indemnity of \$20,000 for death, and weekly allowances for injury; the annual premium is \$180 or thereabouts and a refund is made for the portion of the year for which the policy is not in force. In view of the fact that travel at the present time is unusually hazardous, I suggest that we obtain for Mr. Goldenweiser the same form of policy that the Federal Reserve Bank of New York is obtaining for the two men who are traveling with him. Mr. Rounds will obtain the policy and the Bank will bill us for the amount."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. C. Coates
Chairman.