

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, February 18, 1946, at 10:30 a.m.

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

Mr. Carpenter, Secretary  
Mr. Connell, General Assistant,  
Office of the Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, 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 February 15, 1946, were approved unanimously.

Letter to Mr. John K. McKee, Member of the Board of Governors of the Federal Reserve System, reading as follows:

"With the thought that you would like to have the chair in the Board room to which your name plate is attached and which you have occupied for the past ten years, the Board takes pleasure in presenting the chair to you as a token of sincere appreciation of the benefit which the other members have derived from your participation in the deliberations of the Board throughout the period of your service as a member.

"With the best wishes of everyone here, we are  
Sincerely yours,"

Approved unanimously.

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Letter to Mr. Rounds, Chairman of the Retirement Committee, Retirement System of the Federal Reserve Banks, reading as follows:

"As Mr. Leonard advised you some days ago, we have received from time to time informal requests from representatives of the Social Security Board for information regarding the Retirement System of the Federal Reserve Banks for use in connection with a study they are making of financial operations of all public retirement systems.

"We have since received a formal request for the following data by fiscal years from March 1, 1934 to March 1, 1945:

1. Amount of gross contributions paid to the Retirement System during the fiscal year by (a) the Federal Reserve Banks and (b) the Board.
2. Amount of gross contributions paid to the Retirement System during the fiscal year by (a) employees of the Federal Reserve Banks and (b) of the Board.
3. Average annual yield or earnings on investments of the Retirement System (exclusive of net profits on security transactions).

"In his letter the Chief of the Division of Finance and Economic Studies of the Social Security Board stated that any detailed unpublished information as to the above data which might be made available to them will be used primarily for internal studies of retirement systems and of the operation of plans for financing these systems.

"We will appreciate it if you could furnish this information in duplicate in such form that we could send a copy of the data to the Social Security Board."

Approved unanimously.

Letter to the "First Savings & Trust Company of Tampa," Tampa, Florida, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in

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"transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

It was reported that in accordance with the action taken at the meeting of the Board on January 31, 1946, Messrs. Townsend and Chase of the Board's Legal Division went to Detroit last week to work out the details of the procedure with respect to the suspension of the license of the Motor City Credit Jewelry Company, and that it had been agreed that the consent decree enjoining the registrant from further violations of Regulation W would be issued on February 14, and that the Board's order suspending the license of the registrant under Regulation W would be issued by the Board today, which it was felt would give the widest possible publicity both to the decree and the Board's order.

Upon motion, the following findings and opinion of the Board were approved by unanimous vote:

"This is a proceeding under section 3(d) of Regulation W to determine whether the Motor City Credit Jewelry Co., Inc., Van Dyke, Michigan (hereinafter referred to as the 'Registrant'), has violated sections 4(a) and 12(h) of said Regulation, and, if so, whether Registrant's license should be revoked or suspended.

"The hearing was begun on November 9, 1945, at the offices of the Detroit Branch of the Federal Reserve Bank of Chicago. The Registrant and the Board were each represented by counsel, and each presented evidence. Upon the basis of the facts developed at such hearing, the Board's

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"Hearing Officer submitted his recommended findings and opinion, which were furnished to counsel in order that they might file exceptions thereto, and subsequently, on January 25, 1946, oral argument was had before the Board at its offices in Washington, D. C.

"At the hearing in Detroit, no evidence was introduced by the Registrant to rebut the evidence of violations of the Regulation, and counsel for the Registrant does not contend that the recommended findings were unsupported by the evidence or erroneous. They may therefore be accepted by the Board.

"It appears that Registrant is a corporation organized under the laws of the State of Michigan. Its sole office is located at 22900 Van Dyke Street, Van Dyke, Michigan, a suburb of the city of Detroit, where it engages principally in the sale of jewelry on credit. Its annual business is in excess of \$100,000. At all times mentioned herein, Registrant has been licensed by the Board under the provisions of Regulation W, and has been subject to the requirements of that Regulation.

"Registrant is a family corporation, its stock being owned 45 per cent by David Fink, 35 per cent by Sol Fink, a brother, and 20 per cent by their mother. During the period covered by the evidence (September 1944 to November 1945) Registrant was under the management of David Fink, President, and Eleanor Fink, Secretary-Treasurer, assisted by Leonard Fink, a brother, who was not an officer of the company. For a part of this time there was also one other clerk in the store, a boy about 16 years of age, whose name does not appear.

"On September 26, 1944, an investigator from the Detroit Branch of the Federal Reserve Bank of Chicago made a routine investigation of Registrant's books and records to determine whether Registrant was complying with Regulation W. This investigation disclosed a number of apparent violations, particularly shortages in the down payment required by section 4(a) of the Regulation. The violations also included several instances where the Registrant's records, which are required by section 12(h) of the Regulation to be adequate for the purpose of determining whether the provisions of the Regulation are being obeyed, were found to be totally inadequate for that purpose. These matters were called to the attention of Eleanor and Leonard Fink, who promised future compliance.

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"A second investigation was made on January 19, 1945, which again disclosed numerous shortages in down payments, as well as a continued failure to maintain adequate records. As a result of this investigation, a disciplinary conference was held at the offices of the Reserve Bank on February 2, 1945, which was attended by David Fink. Once again, full future compliance was promised.

"A third investigation was commenced on April 17, 1945. Registrant's records indicated that Registrant had carried out the suggestions made at the disciplinary conference on February 2 and showed apparent substantial compliance with the Regulation. It was noted, however, that a considerable number of instalment credit transactions were marked 'lay-away', indicating that the store had retained possession of the merchandise until the purchaser had paid the full amount of the down payment required by section 4(a) of the Regulation, at which time the records showed that delivery of the merchandise was made to the purchaser. No customer contacts were made to verify these notations in the company's records.

"A fourth and final investigation was commenced on August 31, 1945, and again a considerable number of 'lay-away' transactions were noted. This time, customer contacts were made, and they disclosed the fact that Registrant had been systematically falsifying its records. Specifically, they disclosed that customers were allowed to take merchandise from the store on the day of purchase without making the required down payment, and that the records of these sales were marked 'lay-away', showing delivery of the merchandise on a subsequent date when the purchaser's payments had equaled or exceeded the required down payment. The conclusion is inescapable that Registrant availed itself of this artifice to conceal a studied and deliberate series of violations of the Regulation. In the face of repeated warnings, Registrant has continued to violate the most fundamental requirements of the Regulation, and for a time at least, these were aggravated by other violations designed to conceal them.

"In his oral argument before the Board, Registrant's counsel, without challenging the facts as found above, emphasized that two of the four Fink brothers had been absent in military service during all of the times referred to herein and one of these and their mother together own a majority of the stock of the Registrant.

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"He urged that the Board give consideration to the fact that these two veterans, who expect to make their livelihood from the operation of the Registrant, and their mother, all of whom were innocent of any violations of the Regulation, would be severely penalized by a revocation of Registrant's license.

"Obviously, these arguments are in no sense exculpatory of Registrant's past continued disobedience of the Regulation. And, however much they may otherwise appeal to the Board, they may not properly be considered by it in carrying out its enforcement functions under the Regulation. The latter was promulgated as a part of the Government's program against inflation and, to be effective, should be obeyed by all to whom it applies. If the Board were to be deterred in its enforcement of the Regulation because of its possible effect upon innocent corporate stockholders, it would be establishing a precedent which might very well eliminate the Regulation as an effective medium of credit control.

"These considerations were pointed out to counsel for the Registrant at the time of the oral argument. At that time, however, the Board suggested that, if some arrangement satisfactory to the Board's counsel could be worked out which would give positive assurance of future compliance, the Board might, consistently with its duty to preserve public respect for and continued obedience to the Regulation, impose a less severe penalty than that recommended by the Hearing Officer.

"Since the oral argument the Board is advised that, as a result of a stipulation entered into between counsel on January 31, 1946, and approved by the Board on that date, the following events have occurred:

"1. On February 14, 1946, a consent decree was entered in the United States District Court in Detroit against the Registrant and David Fink, together with all of Registrant's officers and employees, enjoining them from further violations of Regulation W.

"2. David Fink resigned as President of the Registrant.

"3. David Fink's stock interest in Registrant was reduced from 45 per cent to 30 per cent by the transfer of 15 per cent to his brother, Nathan Fink.

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"4. Appropriate resolutions were adopted by Registrant's stockholders placing the management of Registrant's business in Sol and Nathan Fink, requiring all credit sales to be subject to the approval of either of them, and excluding David Fink from the making of credit policies and restricting his executive and administrative activities solely to the handling of the building program and purchasing.

"In the light of the changes thus effected in the management of Registrant, and the continuing and effective nature of the judicial decree entered against it and its employees, the Board is satisfied that future compliance with the Regulation is reasonably assured. Under these circumstances the Board is disposed to reduce the sanction recommended by the Hearing Officer. Accordingly, it is the Board's decision that Registrant's license under Regulation W be suspended for a period of 60 days. An appropriate order will issue.

"By order of the Board of Governors of the Federal Reserve System this 18th day of February 1946."

In accordance with the decision stated in the above opinion, it was voted unanimously to issue the following order suspending the license of the Motor City Credit Jewelry Company from February 24 to April 24, 1946:

"A proceeding having been instituted before the Board under section 3(d) of Regulation W to determine whether the license of Motor City Credit Jewelry Co., Inc., should be suspended or revoked; public hearings having been held thereon; a Hearing Officer's report having been filed with the Board and oral argument had thereon; the Board having considered the entire record and arguments of counsel; and the Board having this day issued its findings and opinion,

"IT IS ORDERED, that the license of the Motor City Credit Jewelry Co., Inc., issued pursuant to the Board's Regulation W, be and the same hereby is suspended for the period from February 24, 1946, to and including April 24, 1946, unless this order is sooner terminated by the Board.

"By order of the Board of Governors of the Federal Reserve System this 18th day of February, 1946."

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In connection with the above action, unanimous approval was also given to the following statement for the press with the understanding (1) that the statement would be given to the press for immediate release, (2) that the statement and the attachments thereto would be sent by mail to all of the Federal Reserve Banks with the request that they give the order and consent injunction as much local publicity as possible, and that they send to the Board copies of all local items appearing in the newspapers, and (3) that the suspension order issued by the Board would be sent to the Detroit Branch with the request that, in accordance with the usual procedure, an employee of the branch effect service of the order by delivering one copy thereof to the president of the Motor City Credit Jewelry Company, and that the affidavit of service executed by the employee effecting the service be sent to the Board together with the original order:

"The Board of Governors of the Federal Reserve System has suspended for 60 days from February 24 to April 24, 1946, the license of Motor City Credit Jewelry Co., Inc., issued under the Board's Regulation W. This company, which is located at 22900 Van Dyke Street, Van Dyke, Michigan (a suburb of Detroit), sells jewelry on an installment basis. The order was issued after a hearing in Detroit, at which evidence was taken, and oral argument before the Board in Washington. Under the order the company will be prohibited from making credit sales during the period of suspension.

"In addition, the United States District Court has issued a decree, by consent, enjoining the company from further violations of the regulation, thus putting the company under judicial restraint.

"The company was charged with numerous and repeated violations of the Regulation. They included failure to obtain the down payments required by the Regulation and the falsification of the company's records for the purpose



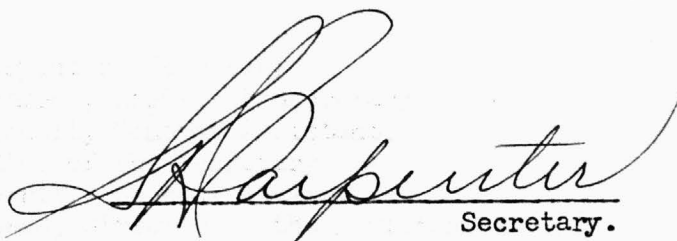
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"of concealing the failure to obtain the required down payments.

"Attached hereto are copies of the Board's Findings and Opinion and Order."

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.