

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 18, 1946, at 10:35 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Draper
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Parry, Director of the Division
of Security Loans
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division
of Examinations
Mr. Nelson, Director of the Division
of Personnel Administration
Mr. Townsend, Assistant General Counsel

Mr. Ransom asked that Mr. Parry make a statement on Regulation W, Consumer Credit, outlining certain proposed changes to be discussed with Federal Reserve Bank representatives at a conference on October 28-29. Mr. Ransom explained that he wanted the Board to know what he had in mind for this conference in order that he might know whether he would have the support of the Board in advancing these proposals.

Mr. Parry stated that within the Federal Reserve System there was much support for streamlining Regulation W at this time and, so far as he knew, no opposition. Briefly, his thinking has been for an amendment which would trim the Regulation down until it covered consumer installment financing and consumer installment credit. To accomplish this it would be proposed (1) to eliminate charge accounts, as such, from the Regulation, except to the extent that might be necessary to prevent evasion through improper use of accounts which were not in

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reality charge accounts, (2) to reduce the list of articles, eliminating all soft goods and retaining only about 15 of the more important durable consumer goods such as automobiles, radios, appliances, and perhaps furniture, (3) to eliminate most of the provisions relating to single payment loans, except those needed to prevent evasion, and (4) to establish a minimum figure such as \$25 or \$50 so that articles priced below the amount determined would in no case be subject to the Regulation. In addition, and especially if furniture were eliminated, (a move which he was inclined to favor), consideration should be given to making the maturity as well as the down payment uniform for all articles. Such changes, Mr. Parry stated, would greatly simplify the Regulation and would thus make administration and compliance more practicable, and at the same time they would leave under the Regulation about 75% of that part of consumer credit which is really its objective, namely, installment loans and credits for the purchase of durable consumer goods which tend to fluctuate in wide cyclical swings. Mr. Parry stated that the question of timing was under consideration, and that, if such an amendment were adopted, he thought the effective date should be either January 1, 1947, or February 1, 1947, which would mean, under the Administrative Procedure Act, that notice should be given by December 1, or, if the effective date were to be February 1, such notice might be given December 26, immediately following the end of Christmas buying.

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Mr. Vardaman commented that (1) he felt the minimum price of an article subject to the Regulation should be \$50 or \$60, with the idea of eliminating most of the smaller items, the buying of which might be restricted for veterans and others by the Regulation; (2) he would like to eliminate furniture, which is a necessary item for reestablishing many households, and the elimination of which would take away a great deal of the complaint concerning the Regulation; and (3) he believed the timing should be November 15, on the ground that, if the change is sound, it should be made in time to permit the public to take advantage of the relaxed credit controls for the Christmas trade.

At this point Mr. Thomas, Director of the Division of Research and Statistics, joined the meeting.

Mr. Vest stated that the important point under the Administrative Procedure Act was that notice of what is proposed by the Board should be published in the Federal Register and interested persons given a reasonable opportunity to present their opinions in writing to the Board before it acts, presumably in not less than thirty days; and secondly that, if the Board takes action, it may not become effective in less than thirty days following that action unless the Board finds an earlier date to be necessary.

Chairman Eccles stated that such changes as were being discussed should be considered from the standpoint of the reasons that

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existed for putting the Regulation into effect originally, and that any relaxation of the Regulation should be made primarily on the grounds that the conditions leading to the adoption of such restrictive measures no longer existed. He pointed out that the entire program of the administration at this time is anti-inflationary in character, and that any change of the nature proposed must be cleared with the Office of Economic Stabilization. He noted that about all that remains of the anti-inflationary program consists of monetary and fiscal measures, including the selective credit controls relating to consumer credit and securities loans.

Mr. Parry pointed out that the proposed changes should not be presented as a relaxation of the consumer credit regulation, but rather as a step toward making it feasible to retain in the greatest practicable measure whatever anti-inflationary influence it might have. He stated that the Regulation is now overextended in scope, attempting to regulate over 400,000 registrants and a wide range of soft as well as hard goods, and that there are so many different kinds of credit covered that the enforceability of the restrictions is almost impossible. The changes proposed would reduce the number of registrants to 200,000 or less, would be a step toward securing greater respect for the portions of the Regulation retained, and, Mr. Parry reiterated, would cover probably 75% of the credit which it appeared significant to cover under the Regulation. He felt that

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such a Regulation might be pretty close to what he would propose for a permanent Regulation, if the Board were called upon to submit suggestions to Congress.

In response to an inquiry from Mr. Morrill, Mr. Parry stated he could support adoption of the proposed changes at this time despite the inflationary threats because the revisions would bring the Regulation close to the form he had felt should have been in effect during the war years, had the Board not felt under the necessity, largely because of the insistence of the Office of Price Administration, of broadening the Regulation beyond the scope he had felt desirable.

Mr. Thomas stated that he agreed the provisions it was now proposed to eliminate should never have been in the Regulation, but he felt the Board should not have it appear that just at the time restrictive measures were most needed in the anti-inflationary program the Board had relaxed credit controls.

In the discussion that followed it was the consensus that the Board must not let it be assumed that it feels inflationary dangers are over or that controls in the monetary and fiscal field are being abandoned; that, if and when the matter is discussed with the Office of Economic Stabilization, the economic and other arguments against a move which might be interpreted as a relaxation, as well as the arguments which favor the changes from the administrative standpoint, must be presented, together with a statement that the

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Board has considered both sides and recommends the changes on the grounds that they would leave the most important parts of the Regulation intact and in a form most likely to be observed; that if the Office of Economic Stabilization should approve such changes it would then be in order to publish notice in the Federal Register; that if such notice were given, an appropriate press release should be issued to make clear that the changes do not constitute relaxation from the major objective of the Regulation and that controls are not being lifted from durable goods chiefly in short supply or where it was feasible to bring about compliance.

At this point, Mr. Thurston joined the meeting and in response to Mr. Ransom's inquiry stated that he felt the Board could say very frankly just what it was doing under such an amendment, and that, although such a change would inevitably be looked upon to some extent as a relaxation, he believed the responsible press would use an appropriate release, and that the entire matter of presenting a revision such as was proposed could be handled satisfactorily.

It was unanimously agreed that a program as outlined should be presented to the conference with representatives from the Federal Reserve Banks to be held October 28 and 29, 1946.

There were presented telegrams to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. McCreedy, Secretary of the Federal Reserve Bank of Philadelphia, Mr. McLarin, President of the

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Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, and Mr. Mangels, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 15, the Federal Reserve Bank of Atlanta on October 16, and the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on October 17, 1946, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Vardaman stated that he had recently learned that the Board did not refer applications of national banks for trust powers to the Comptroller of the Currency prior to taking action upon them, and he felt he would not be in a position to pass upon such applications until the Comptroller, as the supervisory agency having responsibility for national banks, had expressed an opinion upon the question of granting the powers requested. He stated that he understood the present policy had been adopted in 1941, and that he would like to have the Board consider returning to the practice in effect before that date. The Secretary then read excerpts from the minutes of February 14, 1941, in which it was stated that it appeared from discussions that it would be the future policy of the Comptroller's Office to recommend to a greater extent than in the past against the granting of trust powers to small national banks; that there was a

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distinct impression that the Comptroller's Office would recommend unfavorably on many applications similar to those on which the Office previously had made favorable recommendations; and that the Board had unanimously agreed, in view of the new policy of the Comptroller of the Currency of recommending adversely in a number of cases which, under its policy, the Board would approve, that the practice of asking the Comptroller for his recommendations in connection with future applications of national banks for trust powers be discontinued.

Mr. Vardaman stated he felt the Board could defend overriding the Comptroller of the Currency in a given case better than it could defend a policy of not asking for his recommendation for national banks.

Mr. Ransom stated that he had been opposed to the Board's policy of granting trust powers to small banks, but that this was only one of many examples of differences of opinion growing out of the system of multiple supervision of banks.

Chairman Eccles stated that the Board had not felt it could, as a practical matter, deny trust powers to a national bank solely because of smallness, partly because such action would be regarded as discrimination against small enterprises, but mainly because the Board takes into membership small State banks which have trust powers, and it is not feasible to deny the same privileges to national banks in the same communities solely because of their size, when it would be charged with placing them unfairly at a competitive disadvantage.

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He stated that it would seem useless to consult the Comptroller on each application of a national bank if that office was known to have a policy of consistently recommending against certain classes of applications which the Board would approve, but that when the Board member having the assignment desired to do so he would have no objection to resuming the practice of consulting with the Comptroller, since that procedure could always be reconsidered if the policies of the two offices seemed in conflict. Mr. Draper stated he had no objection to consulting with the Comptroller, but felt we should not hesitate to override a recommendation of that office when the Board would otherwise have approved the application under its present policy.

Mr. Vardaman stated he understood the Comptroller of the Currency had never adopted any definite policy of recommending against trust powers for national banks solely because of their size. He felt that if in the future the Board should wish to discontinue consulting with the Comptroller on these applications, the action should be taken formally, and official notice given the Comptroller's Office. He went on to say that coordination and cooperation among the three Federal agencies supervising banks must be attained voluntarily or there will ultimately be a consolidation of the three.

It was unanimously agreed that future applications for trust powers by national banks would be discussed

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informally with the office of the Comptroller of the Currency, and that the Division of Examinations would report in its memoranda concerning such applications the views or recommendations of the Comptroller's office.

Mr. Ransom stated that he would like a further discussion of the procedure to be followed in the event the National Labor Relations Board does not decline to take jurisdiction of the Dallas labor case, discussed previously. Mr. Vest stated that, if the Labor Board should render an adverse decision on the question now before it, the matter would probably be referred back to Dallas for an election, and that, whether the proceedings took place in Dallas or elsewhere, it would be possible for the Board of Governors or any Federal Reserve Bank to intervene because of their interest in legal aspects of the case.

It was unanimously agreed that if the case came up for hearing, either in Dallas or elsewhere, it was clearly a matter of System concern and should be handled as such from the outset; that intervention by the Board would make it a System matter; that the Board should therefore intervene, either formally or informally, as counsel might think best, and that it would not be necessary or desirable to suggest that other Federal Reserve Banks intervene in the proceedings.

At this point Messrs. Sherman, Thurston, Parry, Vest, Leonard, Nelson, Townsend and Thomas withdrew from the meeting.

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Mr. Vardaman referred to certain personnel problems at the Federal Reserve Bank of St. Louis centering around the continuance of Mr. Hitt as First Vice President of the Bank and to his (Mr. Vardaman's) informal discussions with President Davis of these problems. He suggested that, in view of all the circumstances, the Board consider the advisability of addressing a letter to the Chairman of the board of directors of the Bank inviting him, the executive committee, and President Davis to come to Washington to discuss the matter. This suggestion, he said, was not made with the thought of interfering with the management of the St. Louis Bank but because the complaints which had come to him from the St. Louis district with respect to the situation in the Bank were such that he did not think the Board could afford not to do something about them.

After a discussion of Mr. Vardaman's suggestion, it was understood that Chairman Eccles would call President Davis on the telephone and tell him that the question of the continuation of Mr. Hitt as First Vice President of the Bank had been brought up by Mr. Vardaman, and that it had been suggested the Board discuss this and related personnel matters with him and, if he would prefer, with the Chairman of the board of directors, a committee of directors, or any other of the members of the board of directors whom Mr. Davis might wish to have come to Washington for the purpose.

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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 October 16, 1946, were approved unanimously.

Memorandum dated October 16, 1946, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending the appointment of Mr. Charles D. Clabaugh, Jr., as a Guard in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,020 per annum effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Mr. Clabaugh would become a member of the Federal Reserve retirement system.

Approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of New York, involved in the establishment of the Reissue and Correction Section in the Savings Bond Issue Division of the Government Bond Department, as submitted with your letter of October 11, 1946."

Approved unanimously.

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Letter dated October 17, 1946, to the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the North Shore Bank, Miami Beach, Florida, became a member of the Federal Reserve System on October 15, 1946, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of October 15, 1946, the Board of Governors extends to December 15, 1946, the time within which the DeKalb State Bank, Doraville, Georgia, may accomplish membership."

Approved unanimously.

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Memorandum dated October 18, 1946, from Mr. Chase, Assistant Counsel, reading as follows:

"The Federal Reserve Bank of New York has reported to the Board that the Star Credit Clothing Co., the largest merchant peddler organization in Newark, New Jersey (which sells clothing, household furnishings, etc.), has been violating Regulation W persistently for the past year in spite of repeated investigations and warnings by the Reserve Bank. The Reserve Bank feels that nothing further can be accomplished by disciplinary measures in the field, and therefore it is recommended that, if possible, the 'consent decree' procedure which was followed in the Consumers Home Equipment Co. case in Detroit be followed in this case.

"If this recommendation is adopted, the Reserve Bank will be asked to ascertain whether the company will consent to the entry of a decree by the Court and, if so, to handle the remaining steps, except the preparation of court papers which will be done here."

Approved unanimously.

Letter to Mr. Thomas F. Kelly, Government Coordinator for The Hoover Company, North Canton, Ohio, reading as follows:

"This refers to your letters dated October 2, 3, and 9, 1946, regarding the offering of a 'free home trial' of cleaners in anticipation of an instalment sale under Regulation W.

"We note from the advertisements you enclosed that offers of this sort are being made by Milbern Vacuum Stores, at Harrisburg, Lancaster, and Reading, Pennsylvania; Penco Vacuum Stores, Rochester, New York; Ace Vacuum Stores, Cleveland, Ohio; United Vacuum Cleaner Stores, North Canton, Ohio, and Scranton, Pennsylvania; Elgin Appliances, Scranton; and Hub Vacuum Stores, Inc., Clean-Rite Vacuum Stores, and Union Vacuum Stores, all at Chicago, Illinois.

"The Federal Reserve Bank of Cleveland has investigated the advertisements by United Vacuum Cleaner Stores at Greensburg and Pittsburgh, Pennsylvania, and at the home office in Cleveland, Ohio. It has also checked Ace Vacuum Stores, at the office in Cleveland, Ohio, covering

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"advertising for the Cleveland, Cincinnati, and Detroit areas. The Bank reports that the 'free home trial' advertised by these stores does not represent a violation in fact. The salesmen do not, in any case, leave the cleaners with the customers for the purpose of a free trial period before the sale is consummated. The salesmen always keep the sweepers in their possession and take them with them when they leave the homes of prospects. In the case of Ace Vacuum Stores, Inc., the '10-day free trial' advertised meant that the customer merely had the option within this stated period of changing the cleaner to a larger or smaller model.

"Although the advertising of a 'free home trial' does not in itself constitute a violation of the regulation, we appreciate your sending us these instances of possibly misleading advertisements. If you have evidence of any case involving an actual violation in practice we should like to know about it. Such information would be particularly helpful to the Federal Reserve Banks in the areas involved in their continuing investigations of this class of Registrants.

"At present, however, it does not seem to us that the situation justifies the amendment to the regulation, which you suggest, to permit a free home trial."

Approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Enclosed is a copy of a letter dated October 10, 1946, from Mr. Thomas Graham, of The Bankers Bond Co., Louisville, Kentucky, asking for advice regarding a ruling of the Board prohibiting officers and directors of member banks from serving in similar capacities for open-end investment companies.

"The ruling to which Mr. Graham refers is contained in the Board's letter of September 22, 1942, S-556 (Loose Leaf Service No. 7610, page 2790). This letter was not published in the Federal Reserve Bulletin, but we see no objection to advising Mr. Graham of the substance of such letter.

"It will be appreciated if your bank will make an appropriate reply to Mr. Graham's letter. Mr. Graham has not been advised of this reference to your bank."

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Approved unanimously.

Letter to Mr. Berge, Secretary and Assistant Counsel,
Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of September 23, 1946, to Mr. Vest, requesting a ruling from the Board with respect to an offering of stock which the State Street Investment Corporation, Boston, Massachusetts, contemplates making in December of this year along the same lines as that offered to its shareholders in 1945.

"It is understood that the Corporation proposes to issue to its shareholders subscription rights permitting them to reinvest capital gains realized by the Corporation in 1946; that no more stock than the amount of the capital gain will be offered for reinvestment; and the offering will be limited to a period of not to exceed 30 days. We also note that no stock of the Corporation has been sold since January 24, 1946, and that no stock of the Corporation has been redeemed this year.

"In these circumstances the Board will not consider that the intended action of the State Street Corporation will bring the Corporation within the purview of section 32 of the Banking Act of 1933. However, any future offering of its stock will make necessary further consideration of the question as to whether the Corporation is primarily engaged in the securities business within the meaning of section 32."

Approved unanimously.

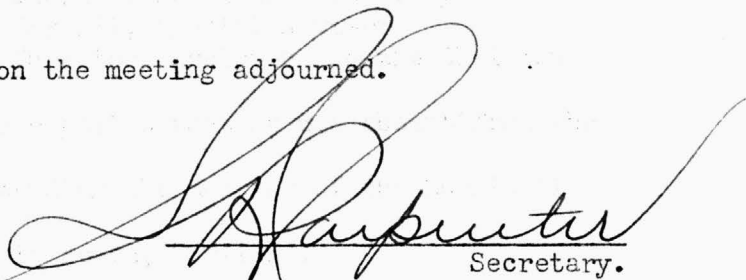
Memorandum dated October 16, 1946, from Mr. Vest, General Counsel, recommending an increase of \$750.00 in the Division's Printing and Binding Account for the following reasons: (1) There is a balance of \$73.00 in this account, and a bill outstanding of \$219.20 for printing the Board's brief in the Peoples Bank case. (2) The Division will probably have to pay comparable sums for printing briefs in the Consumers Home Equipment Company case and

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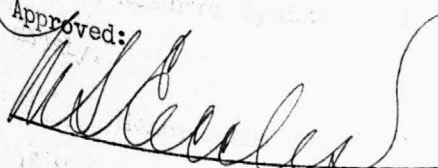
the Agnew-Fayerweather case. The memorandum also pointed out that these were items which could not be anticipated at the beginning of the year and were therefore not provided for in the budget.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.