

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 17, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.

Mr. Szymczak

Mr. Draper

Mr. Evans

Mr. Vardaman

Mr. Clayton

Mr. Carpenter, Secretary

Mr. Hammond, Assistant Secretary

Mr. Morrill, Special Adviser

Mr. Thurston, Assistant to the Board

Mr. Riefler, Assistant to the Chairman

Mr. Smead, Director of the Division of Bank Operations

Mr. Vest, General Counsel

Mr. Leonard, Director of the Division of Examinations

Mr. Young, Associate Director of the Division of Research and Statistics

Mr. Brown, Assistant Director of the Division of Research and Statistics

Mr. Solomon, Assistant General Counsel

Mr. Evans stated that in accordance with the recommendation made at the meeting of the Board on August 13, 1948, he had conferred with the Comptroller of the Currency, Mr. Cook of the Federal Deposit Insurance Corporation in the absence of Chairman Harl, and Mr. Duggan, Governor of the Farm Credit Administration, that he had discussed with them the arrangement that had been in effect under the old Regulation W by which these agencies undertook to enforce compliance with the regulation by the organization under their supervision, and that he had stated the Board would like to have their full cooperation in

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the enforcement of the new Regulation W. Each of them, Mr. Evans said, gave assurance of full cooperation and it was understood that the Board's request and their willingness to cooperate would be confirmed by an exchange of letters so that the arrangement would be a matter of formal record. Mr. Evans added that Mr. Duggan had suggested that after the vacation period was over some of his associates would like to come over to the Board's offices for a conference on some of the questions that would confront his organization in connection with enforcement and that arrangements for such a conference would be made.

Mr. Evans also stated that, in response to the inquiry made following the meeting of the Board on August 13, 1948, six of the Federal Reserve Banks favored continuation without change of the provision in the old Regulation W with respect to the enforceability of contracts, that two favored making contracts that did not conform to the regulation unenforceable, and that four favored continuation without change of the provision in the old regulation with an announcement, however, at the time of the publication of the new regulation that the Board was considering an amendment which would make contracts unenforceable which did not conform to provisions of the regulation. He also said that he had discussed the matter further with the staff group and that it was

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recommended that the first alternative be adopted.

This recommendation was discussed on the basis of the views expressed by the Federal Reserve Banks and the possible effectiveness as an enforcement medium of a provision which would render non-conforming contracts unenforceable and it was the consensus that, while the provision should not be written into the new regulation when it was put into effect, the Board should announce at the time of the publication of the regulation that it was considering such a provision and would like to have comments with respect to it.

Upon motion by Mr. Evans, this procedure was approved unanimously.

Reference was made to the recommendation at the meeting of the Board on August 13, 1948, that a similar procedure be followed with respect to provisions which would make repair and modernization loans subject to the regulation and the members of the Board reaffirmed their approval of this recommendation, it being understood that the form of such a provision, if approved at a later date, would be determined after consultation with representatives of the Housing and Home Finance Agency.

Mr. Evans then stated that since the meeting of the Board on August 13, 1948, he had given further consideration, in consultation with the staff group, to the question of maturities to be provided in the regulation and that there was unanimous agreement

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with a recommendation that the regulation provide that on all credits not exceeding \$1,000 the maximum maturity be fixed at 15 months and that on credits above \$1,000 the maximum maturity be fixed at 18 months except that the monthly payment on amounts over \$1,000 be not less than \$70. Such a provision, he said, would require that credits between \$1,000 and about \$1,250 be paid in instalments at least as large as the payments on a \$1,000 credit.

It was pointed out that this recommendation, if adopted, would result in maximum maturities on instalment sales of most pre-war automobiles of 15 months.

There was discussion of the recommendation in comparison with the proposal made at the meeting on August 13, 1948, of a maturity of 18 months on first-sale automobiles and 15 months on all other items and it was stated that Mr. Evans' recommendation would allow 18 months on purchases of large combinations of kitchen equipment, furniture for a whole household, etc. Consideration was also given to the possible impact of the recommendation on the total volume of instalment credit outstanding if maximum maturities were fixed at 15 months and how restrictive such terms would be in relation to the terms now being allowed by the trade.

Question was raised whether the down payments or maturity provisions of the regulation would be most restrictive and various

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combinations of terms were discussed.

Mr. Evans moved that the down payment requirement on automobiles be fixed at  $33\frac{1}{3}$  per cent with 20 per cent on all other items covered by the regulation, and that on credits not exceeding \$1,000 the maximum maturity be fixed at 15 months and on credits in excess of \$1,000 the maximum maturity be fixed at 18 months, except that monthly payments on credits of more than \$1,000 be not less than \$70.

Mr. Vardaman moved to amend Mr. Evans' motion to provide for a down payment of  $33\frac{1}{3}$  per cent on all items except furniture on which the down payment would be 20 per cent with a maximum maturity of 15 months on all items.

Mr. Vardaman stated that his amendment would reinstate the terms of Regulation W which were in effect when the regulation lapsed on November 1, 1947, and would answer any criticism that the regulation was being liberalized.

The effects of such provisions on the outstanding volume of credit and on the attitude toward the regulation were discussed.

After this discussion, Mr. Vardaman's motion was put by the Chair and lost, Messrs. Eccles and Vardaman voting "aye" and Messrs. Szymczak, Evans, Draper, and Clayton voting "no".

Mr. Clayton then moved that Mr. Evans' motion be amended to provide for a down payment of  $33\frac{1}{3}$  per cent on all items except furniture on which the down payment would be 20 per cent with a maximum maturity of 18 months on all items.

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In making this motion Mr. Clayton stated that such terms would still be considerably more restrictive than the terms now being granted by the trade and, therefore, would restrict further growth of consumer instalment credit.

In the discussion of this amendment it was agreed that the requirement of 33-1/3 per cent down payment on all items other than furniture would make Mr. Clayton's proposal more restrictive than the down payments proposed in Mr. Evans' motion, but that the requirement of a 15-month maturity on credits of less than \$1,000 and a minimum monthly payment of at least \$70 on larger credits would be more restrictive than the maturities provided in Mr. Clayton's motion.

Following the discussion, Mr. Clayton's motion was put by the Chair and lost, Mr. Clayton voting "aye" and Messrs. Eccles, Szymczak, Draper, Evans, and Vardaman voting "no".

Mr. Evans' original motion was then put by the Chair and carried unanimously.

Thereupon, upon motion by Mr. Evans, the Board voted unanimously to adopt the following revision of Regulation W to become effective on September 20, 1948:

"REGULATION W

"Effective September 20, 1948\*

"CONSUMER INSTALMENT CREDIT

\* This regulation shall apply to extensions of credit made, renewed, revised or consolidated on or after the effective date.

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"SECTION 1. SCOPE AND APPLICATION OF REGULATION

"This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the 'Board') under authority of section 5(b) of the Act of October 6, 1917, as amended, Executive Order No. 8843, dated August 9, 1941 (hereinafter called the 'Executive Order'), and Public Law 905, approved August 16, 1948.

"The regulation applies, in general, to any person who is engaged in the business of making extensions of instalment credit in amounts of \$5,000 or less, or discounting or purchasing obligations arising out of such extensions of credit. It applies whether the person is a bank, loan company, or finance company, or a person who is so engaged in connection with any other business, such as by making such extensions of credit as a dealer, retailer, or other person in connection with the selling of consumers' durable goods.

"SECTION 2. GENERAL REQUIREMENTS AND REGISTRATION

"(a) General Requirements.--Each person engaged in the business of making instalment sales<sup>1</sup> or instalment loans,<sup>2</sup> or engaged in the business of lending on the security of or discounting or purchasing obligations arising out of such extensions of credit, is referred to in this regulation as a 'Registrant'; and no Registrant shall make or receive any payment which constitutes or arises directly or indirectly out of any such extension of credit made by him or out of any such obligation lent on or discounted or purchased by him, except on the following conditions:

"(1) He must have a license, and each Registrant is hereby granted such a license, but such license of a Registrant may be suspended in the manner and on the grounds stated in section 8(b); and

<sup>1</sup> It is to be noted that 'instalment sale' is defined to include only instalment credit arising out of the sale of an article in the Supplement, hereinafter called a 'listed article.'

<sup>2</sup> Both 'instalment sale' and 'instalment loan' are defined to exclude credits in a principal amount exceeding \$5,000.

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"(2) The extension of credit made, renewed, revised or consolidated by him, or giving rise to the obligation discounted or purchased by him or acquired by him as collateral, must comply with the applicable requirements of this regulation.

"(b) Registration.--Within 60 days after the effective date of this regulation, or 60 days after he becomes subject to section 2(a), whichever is later, each Registrant shall file, with the Federal Reserve Bank or any branch thereof in the district in which the main office of the Registrant is located, a registration statement on a form obtainable from any Federal Reserve Bank or branch. Such statement shall be filed regardless of whether or not the Registrant had filed such a statement under Regulation W as in effect prior to November 1, 1947.

### "SECTION 3. INSTALMENT SALES: GENERAL RULES

"Except as otherwise permitted by this regulation, each instalment sale shall comply with the following requirements:

"(a) Down Payment and Maturity.--There shall be a down payment not less than that specified for the listed article in the Supplement, such down payment to be calculated as therein specified; and the maturity shall not exceed that specified for the listed article in the Supplement.

"(b) Amounts and Intervals of Instalments.--Except as permitted by section 6(a) for seasonal incomes, the time balance shall be payable in instalments which shall be (1) substantially equal in amount or so arranged that no instalment is substantially greater than any preceding instalment, (2) payable at approximately equal intervals not exceeding one month, and (3) not less than \$5.00 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor.

"(c) Statement of Transaction.--The instalment sale shall be evidenced by a written instrument or record which shall set forth the information specified in section 6 (c).



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"SECTION 4. INSTALMENT LOANS: GENERAL RULES

"Except as otherwise permitted by this regulation, each instalment loan shall comply with the following requirements:

"(a) Instalment Loans to Purchase Listed Articles.-- If the Registrant knows or has reason to know that the proceeds of an instalment loan are to be used to purchase any listed article:

"(1) The principal amount lent (excluding any interest or finance charges and the cost of any insurance) shall not exceed the maximum loan value specified for the article in the Supplement, such loan value to be calculated as therein specified; and

"(2) The maturity shall not exceed the maximum maturity specified for the listed article in the Supplement.

"(b) Unclassified Instalment Loans.--In the case of an instalment loan which is not subject to section 4(a), the maximum maturity shall not exceed the maximum maturity specified therefor in the Supplement.

"(c) Amounts and Intervals of Instalments; Record.--Whether subject to section 4(a) or section 4(b), the instalment loan, except as permitted by section 6(a) for seasonal incomes, shall be payable in instalments which shall be (1) substantially equal in amount or so arranged that no instalment is substantially greater in amount than any preceding instalment, (2) payable at approximately equal intervals not exceeding one month, and (3) not less than \$5.00 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor. It shall be evidenced by a written instrument or record which shall set forth the terms of payment.

"(d) Statement of the Borrower.--No Registrant shall make any instalment loan subject to section 4(a) or 4(b) unless he shall have accepted in good faith a signed Statement of the Borrower as to the purposes of the loan. Such Statement shall state whether or not any of the proceeds of the loan are to be used to make a down payment on the purchase of a listed article or to be used to purchase any listed article, and if any of the proceeds of the loan are to be used for the latter purpose such Statement shall identify such listed article and shall

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"state the cash price thereof and the value of any trade-in. If a Registrant relies in good faith on the facts set out by the obligor in such Statement, it shall be deemed to be correct for the purposes of the Registrant.

"(e) Loans to Make Down Payments Prohibited.--A Registrant shall not make any instalment loan if he knows or has reason to know that any part of the proceeds thereof is to be used to make a down payment on the purchase price of any listed article.

#### "SECTION 5. RENEWALS, REVISIONS AND ADDITIONS

"(a) General Requirements.--In the case of an instalment sale or instalment loan which results from a renewal or revision of any such credit already outstanding, or which results from the combination of any such outstanding credit with an additional extension of instalment credit, the renewed, revised or consolidated obligation shall (regardless of when the outstanding credit originated) comply with all the requirements of this regulation as if it were a new extension of credit except that:

"(1) The requirements as to Statement of Borrower and down payment or maximum loan value, if any, shall not apply to the outstanding credit already held by the Registrant; and

"(2) The renewed, revised or consolidated obligation may, in so far as the maturity and instalment requirements are concerned, be treated as if it were a new credit with the maximum maturity calculated from the date of the renewal, revision or consolidation. The payments on such renewed, revised, or consolidated obligation shall not be less than \$5.00 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor.

"(b) Statement of Changed Conditions.--Notwithstanding any other provision of this regulation, if a Registrant accepts in good faith a Statement of Changed Conditions as provided in the following paragraph, an extension of instalment credit that refinances any outstanding obligation (whether or not such obligation is held by the Registrant or is itself payable in instalments) may have a maturity not exceeding that specified

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"in the Supplement for refinancing pursuant to such Statements, but such maturity shall be applicable only to the credit refinanced. The payments on the credit refinanced need not be as large as \$5.00 per month or \$1.25 per week.

"The requirements of a Statement of Changed Conditions will be complied with only if the Registrant accepts in good faith a written statement signed by the obligor that the contemplated refinancing is necessary in order to avoid undue hardship upon the obligor or his dependents resulting from contingencies that were unforeseen by him at the time of obtaining the original extension of credit or which were beyond his control, which statement also sets forth briefly the principal facts and circumstances (1) with respect to the original extension of credit and (2) with respect to such contingencies, and specifically states in addition that the contemplated refinancing is not pursuant to a preconceived plan or an intention to evade or circumvent the requirements of this regulation.

"(c) Bona Fide Collection Effort; Servicemen's Pre-induction Debt.--Nothing in this regulation shall be construed to prevent any Registrant from making any renewal or revision, or taking any action that he shall deem necessary in good faith (1) for the Registrant's own protection in connection with any obligation which is in default and is the subject of bona fide collection effort by the Registrant, or (2) with respect to any obligation of any member or former member of the armed forces of the United States incurred prior to his induction into such service.

#### "SECTION 6. CERTAIN TECHNICAL PROVISIONS

"(a) Special Payment Schedules for Seasonal Incomes.--If the income received by an obligor from the main sources of his income customarily fluctuates materially from month to month or from season to season, the payment schedule may be adapted, within the applicable maximum maturity, to such customary flow of income, provided the obligation complies with one or the other of the following requirements: (1) at least half of the credit is to be repaid within the first half of

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"the applicable maximum maturity; or (2) payments are reduced or omitted in not more than 4 months of any calendar year but are otherwise in equal monthly amounts. In all such cases, a statement of the facts relied upon shall be preserved in the Registrant's files for the life of the obligation.

"(b) Calculating Maximum Maturity of Contract.--In calculating the maximum maturity of an instalment sale or instalment loan, a Registrant may, at his option, use any date not more than 15 days subsequent to the actual date of the sale or loan.

"(c) Record of Instalment Sale.--The instrument or record evidencing an instalment sale pursuant to section 3(c) shall set forth (in any order) the following information:

"(1) A brief description identifying the article purchased;

"(2) The cash price of the article;

"(3) The amount of the purchaser's down payment (i) in cash and (ii) in goods accepted in trade, together with a brief description identifying such goods and stating the monetary value assigned thereto in good faith;

"(4) The amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts;

"(5) The time balance owed by the purchaser, which is the sum of items (2) and (4) minus item (3); and

"(6) The terms of payment.

The instrument or record need not include a description of the article if it is purchased by means of a coupon book or similar medium of instalment credit upon which there has been made a cash down payment at least as great as the highest down payment required by this regulation on any article sold by the Registrant. The instrument or record need not include the information called for by items (2) and (4) if the Registrant is one who quotes to the public a time price for the article which includes the finance charge if any, provided he sets forth such time price in such instrument or record, and provided he obtains a cash down payment which is at least as large as would be required if the percentage specified for the article in the Supplement were applicable to the time price.

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"(d) Extension of Credit for Mixed Purposes.--In case an extension of credit is partly subject to one section of this regulation and partly subject to another section, the amount and terms of such extension of credit shall be such as would result if the credit were divided into two or more parts and each part were treated as if it stood alone. In case an extension of credit is partly subject to this regulation and partly not subject to the regulation, the amount and terms of such extension of credit shall be such as would result if the credit were divided and the part subject to the regulation were treated according to the applicable provisions of the regulation; the part not subject to the regulation may be treated as if the regulation did not exist.

"(e) 'Lay-away' Plans.--With respect to any extension of credit involving a bona fide 'lay-away' plan, or other similar plan by which a purchaser makes one or more payments on an article before receiving delivery thereof, the Registrant may, for the purposes of this regulation, treat the extension of credit as not having been made until the date of the delivery of the article to the purchaser.

"(f) Mail Orders.--An instalment sale shall not be deemed to be in violation of the down payment requirement of section 3(a) if the sale is made upon the receipt of a mail order for one or more articles and the cash deposit received with the order fails by less than \$1.00 to equal the sum of the down payments required by this regulation for all of the articles included in the order.

"(g) Delivery in Anticipation of Instalment Sale.--In case a listed article is delivered in anticipation of an instalment sale of that article or a similar article (such as a delivery 'on approval', 'on trial', or as a 'demonstrator'), the Registrant shall require, at or before the time of such delivery, a deposit equal to the down payment that would be required on such an instalment sale.

"(h) Sets and Groups of Articles.--In determining whether an article is a 'listed article', the word 'article' shall be deemed to include any set, group or assembly commonly considered, sold or used as a single unit, if the component parts thereof are sold or delivered at substantially the same time.

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"(i) Evasive Side Agreements.--No extension of credit complies with the requirements of this regulation if at the time it is made there is any agreement, arrangement, or understanding (1) by which the obligation is to be renewed or revised on terms which would permit final payment to be deferred beyond the date permitted by this regulation for such credit at its inception, or (2) by which the obligor is to be enabled to make repayment on conditions inconsistent in any other respect with those required by this regulation, or (3) by which there is to be any evasion or circumvention, or any concealment of any evasion or circumvention, of any requirement of this regulation.

"(j) Side Loan to Make Down Payment.--A Registrant shall not make an extension of instalment credit to finance the purchase of any listed article if he knows or has reason to know that there is, or that there is to be, any other extension of credit of any kind in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the amount of instalment credit permitted by this regulation; but, if the Registrant accepts in good faith a written statement signed by the obligor that no such other extension exists or is to be made, such statement shall be deemed to be correct for the purposes of the Registrant.

"(k) Purchase of Article in Lieu of Trade-in.--Anything which the seller of a listed article buys, or arranges to have bought, from the purchaser at or about the time of the purchase of the listed article shall be regarded as a trade-in for the purposes of this regulation.

"(l) Misuse of Coupon Plans.--No coupon, ticket or similar medium of credit, whether paid for in instalments or otherwise, shall be accepted by any Registrant in payment, in whole or in part, for any listed article if such acceptance, in effect, would permit the article to be sold on terms not complying with the requirements of this regulation.

#### "SECTION 7. EXEMPT CREDITS

"This regulation shall not apply to any of the following:

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"(a) Business or Agricultural Loans.--Any loan for business purposes to a business enterprise or for agricultural purposes to a person engaged in agriculture, provided the loan is not for the purpose of purchasing a listed article.

"(b) Credit to Dealers and Certain Salesmen.--Any extension of credit to a wholesaler or retailer to finance the purchase of any article for resale, or any extension of credit which is made to a bona fide salesman of automobiles in order to finance the purchase of a new automobile to be used by him principally as a demonstrator.

"(c) Credit to Governmental Agencies, Religious Institutions, etc.--Any extension of credit to the Federal Government, any State government, any political subdivision, or any department, agency or establishment thereof, or to any church, hospital, clinic, sanitarium, school, college, or other religious, education, charitable, or eleemosynary institution.

"(d) Credits Under Government Rehabilitation and Readjustment Programs.--Any extension of credit (1) made by the Land Bank Commissioner on behalf of the Federal Farm Mortgage Corporation or by any Federal land bank and found, pursuant to regulations issued by the Commissioner, to be necessary to maintain or increase production of essential agricultural commodities, (2) made or insured by the Farmers' Home Administration, (3) made in accordance with the regulations of the Secretary of the Interior for the economic development or rehabilitation of Indians, (4) made under section 4(a)(4) of the Reconstruction Finance Corporation Act, as amended, because of floods or other catastrophes, or (5) made, guaranteed or insured in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944, or by any State agency pursuant to similar State legislation.

"(e) Loans to Pay Fire and Casualty Insurance Premiums.--Any loan to finance a premium in excess of one year on a fire or casualty insurance policy, if the loan is fully secured by the unearned portion of such premium.

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"(f) Credit for Purchasing Securities.--Any extension of credit which is subject to the Board's regulations under the Securities Exchange Act of 1934 or which is otherwise for the purpose of purchasing or carrying stocks, bonds, or other investment securities.

"(g) Real Estate and Home Improvement Loans.--Any extension of credit which is for the purpose of financing or refinancing (1) the construction or purchase of an entire residential building or other entire structure or (2) repairs, alterations, or improvements upon urban, suburban or rural real property in connection with existing structures, except to the extent that such repairs, alterations, or improvements incorporate any listed article.

"(h) Loans to Meet Medical Expenses, etc.--Any loan as to which the Registrant accepts in good faith a written statement signed by the borrower certifying that the proceeds are to be used for bona fide educational, medical, hospital, dental, or funeral expenses, or to pay debts incurred for such expenses, and that such proceeds (unless they are to be used exclusively for educational expenses) are to be paid over in amounts specified in such statement to persons whose names, addresses, and occupations are stated therein.

"(i) Disaster Credits.--Any extension of credit to finance the repair or replacement of property damaged or lost as a result of a flood or other similar disaster which the Federal Reserve Bank of the district in which the disaster occurred finds has created an emergency affecting a substantial number of the inhabitants of the stricken area, provided such extension is made prior to the end of the sixth calendar month following the month in which the disaster occurred and a statement describing the damage or loss is preserved in the Registrant's files.

#### SECTION 8. MISCELLANEOUS PROVISIONS; DEFINITIONS

"(a) Preservation of Records; Inspections.--Every Registrant shall preserve, for the life of the obligation to which they relate, such books of account, records, and other papers (including any statements required by or obtained pursuant to this regulation) as are relevant to



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"establishing whether or not an extension of credit within the scope of this regulation was in conformity with the requirements thereof, provided, however, that the Registrant may preserve photographic reproductions in lieu of such books of account, records or papers.

"For the purpose of determining whether or not there has been compliance with the requirements of this regulation, every Registrant shall permit the Board or any Federal Reserve Bank by its duly authorized representatives, to make such inspections of his business operations as the Board or Federal Reserve Bank may deem necessary or appropriate, including inspections of books of account, contracts, letters or other relevant papers wherever located, and, for such purpose, shall furnish such reports as the Board or the Federal Reserve Bank may require. When ordered to do so by the Board, every Registrant shall furnish, under oath or otherwise, such information relative to any transaction within the scope of the authority cited in section 1 as the Board may deem necessary or appropriate for such purpose, including the production of books of account, contracts, letters or other papers in the custody or control of such person.

"(b) Suspension of License.<sup>3</sup>--The license of any Registrant may, after reasonable notice and opportunity for hearing, be suspended by the Board, in its entirety or as to particular activities or particular offices or for specified periods, because of any willful or negligent failure to comply with any provision of this regulation or any requirement of the Board pursuant thereto.

<sup>3</sup> In addition, the authority cited in section 1 authorizes the Board to institute court proceedings to restrain violations of, and to compel compliance with, the regulation or any order of the Board made in pursuance thereof. Furthermore, any Registrant who willfully violates or knowingly participates in a violation of this regulation is subject to the penalties prescribed in section 5(b) of the Act of October 6, 1917, as amended, which reads in part as follows: 'Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule, or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.'

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"A license which is suspended for a specified period will again become effective upon the expiration of such period. A license which is suspended indefinitely may be restored by the Board, in its discretion, if the Board is satisfied that its restoration would not lead to further violations of this regulation and would not be otherwise incompatible with the public interest.

"(c) Enforceability of Contracts.--Except as may subsequently be otherwise provided, all provisions of this regulation are designated, pursuant to section 2(d) of the Executive Order, as being 'for administrative purposes' within the meaning of said section 2(d), which provides that noncompliance with provisions of the regulation so designated shall not affect the right to enforce contracts.

"(d) Clerical Errors.--Any failure to comply with this regulation resulting from a mistake in determining, calculating, or recording any price, down payment, or extension of credit, or other similar matter, shall not be construed to be a violation of this regulation if the Registrant establishes that such failure to comply was the result of excusable error and was not occasioned by a regular course of dealing.

"(e) Non-Compliance Due to Facts Outside Registrant's Knowledge.--The prohibitions of this regulation shall not apply to a Registrant with respect to any failure to comply with this regulation in connection with (1) an extension of credit made by him if, at the time he made it, he did not know or have reason to know any fact by reason of which such extension failed to comply; (2) an obligation purchased, discounted or acquired as collateral by him if, when he purchased or discounted the obligation or acquired it as collateral, the obligation did not show on its face any failure to comply and he did not know any fact by reason of which the extension of credit giving rise to the obligation failed to comply; or (3) an obligation renewed, revised, or consolidated by him if, at the time when he renewed, revised or consolidated it, he did not know or have reason to know any fact by reason of which such renewal, revision or consolidation failed to comply. With respect to any loan on the security of an obligation which arises out of an extension of credit subject to this regulation, the prohibitions

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"of this regulation shall be deemed to apply only to payments arising out of the obligation rather than to payments arising out of the loan.

"(f) Transactions Outside United States.--Nothing in this regulation shall apply with respect to any extension of credit made in Alaska, the Panama Canal Zone, or any territory or possession outside the continental United States.

"(g) Right of Registrant to Impose Stricter Requirements.--Any Registrant has the right to refuse to extend credit, or to extend less credit than the amount permitted by this regulation, or to require that repayment be made within a shorter period than the maximum permitted by this regulation.

"(h) Definitions.--For the purposes of this regulation, unless the context otherwise requires:

"(1) 'Person' means an individual, partnership, association, or corporation.

"(2) 'Registrant' has the meaning given it in section 2(a).

"(3) 'Extension of Credit' has the meaning given it in the Executive Order.<sup>4</sup>

<sup>4</sup> The pertinent part of the Executive Order reads as follows: 'Extension of credit' means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim or property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

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"(4) 'Instalment Credit' means an extension of credit which the obligor undertakes to repay in two or more scheduled payments or as to which the obligor undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or which has a similar purpose or effect.

"(5) 'Instalment Sale' means an instalment credit in a principal amount of \$5,000 or less which is made as principal, agent or broker, by any seller of any consumers' durable good listed in the Supplement to this regulation (herein called a 'listed article') and which arises out of a sale of such listed article. For this purpose, 'sale' includes a lease, bailment, or other transaction which is similar in purpose or effect to a sale.

"(6) 'Instalment Loan' means an instalment credit, other than an instalment sale, in the form of a loan which is in a principal amount of \$5,000 or less; but the definition does not include any loan upon the security of any obligation which arises out of any instalment sale or instalment loan.

"(7) 'Cash Price' means the bona fide cash purchase price of an article, including the bona fide cash purchase price of any accessories, any bona fide delivery, installation and service charges (other than interest, finance or insurance charges), and any applicable sales taxes.

"(8) 'Principal Amount' in the case of an instalment sale means the total amount to be paid under the obligation minus the finance charge, and in the case of an instalment loan means the amount lent exclusive of interest (whether or not such interest is deducted in advance).

"SUPPLEMENT TO REGULATION W  
"Effective September 20, 1948

"Part 1. Listed Articles, Down Payments, Loan Values.--  
For the purposes of Regulation W, the following articles, whether new or used, are 'listed articles', and the following required down payments and maximum loan values are prescribed (such down payments and loan values to be calculated as specified in Parts 4 and 5 of this Supplement); but no article having a cash price of less than \$50.00 shall be considered a listed article:

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"Group A--33-1/3 per cent minimum down payment, 66-2/3 per cent maximum loan value:

- "1. Automobiles (passenger cars designed for the purpose of transporting less than 10 passengers, including taxicabs).

"Group B--20 per cent minimum down payment, 80 per cent maximum loan value:

- "1. Cooking stoves and ranges, designed for household use.  
 "2. Dishwashers, mechanical, designed for household use.  
 "3. Ironers designed for household use.  
 "4. Refrigerators, mechanical, of less than 12 cubic feet rated storage capacity (including food freezers).  
 "5. Washing machines designed for household use.  
 "6. Combination units incorporating any listed article in the foregoing classifications of this Group B.  
 "7. Air conditioners, room unit.  
 "8. Radio or television receiving sets, phonographs, or combinations.  
 "9. Sewing machines designed for household use.  
 "10. Suction cleaners designed for household use.  
 "11. Furniture, household, (including ice refrigerators, bed springs, mattresses and lamps); and floor coverings, soft surface.

"Part 2. Maturities.--The maximum maturity for all listed articles and for unclassified instalment loans is 15 months in case the extension of credit is in a principal amount of \$1,000 or less and 18 months in case the extension of credit is in a principal amount of more than \$1,000, except that when such principal amount is more than \$1,000 the instalment payments shall not be less than \$70 per month.

"Part 3. Refinancing Pursuant to Statement of Changed Conditions.--The maximum maturity of any refinancing pursuant to a Statement of Changed Conditions as specified in section 5(b) shall be 20 months.

"Part 4. Calculation of Down Payments for Automobiles.--The maximum loan value of any automobile shall be the specified percentage of the cash price or of the 'appraisal guide value', whichever is lower, and the required down payment shall be the difference between the cash price

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"and the maximum loan value as so calculated. Such required down payment in the case of an automobile may be obtained in the form of cash, trade-in, or both.

"'Appraisal guide value' means the estimated average retail value as stated in the current edition of any regularly published automobile appraisal guide that the Board designates for this purpose for use in the territory in which such automobile is sold, plus any applicable sales taxes. Information as to the guide or guides designated for any given territory may be obtained from any Federal Reserve Bank or branch.

"Part 5. Calculation of Down Payments for Articles in Group B.--If any article is traded in by the purchaser on an article listed in Group B, the required down payment and the maximum loan value shall be the specified percentage of the net price of the article after deducting from the cash price the amount allowed for the trade-in; and such down payment shall be obtained in cash in addition to the trade-in."

Unanimous approval was also given to (1) the following release to be handed to the press on the afternoon of August 19 for publication in the morning papers of August 20, 1948, and (2) the following statements for publication in the Federal Register with respect to (a) the reasons why the regulation was being issued without notice and opportunity for a hearing and (b) notice that consideration would be given by the Board to two proposed amendments to the regulation:

Press Statement

"The Board of Governors of the Federal Reserve System today issued Regulation W on 'Consumer Instalment Credit' under Public Law 905 which the President signed on August 16, 1948. The regulation, which becomes effective September 20, 1948, is being published in the Federal Register, and copies will be distributed by the Federal Reserve Banks as promptly as possible.

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"The regulation is in much the same form as that which terminated on November 1, 1947. It covers instalment sales of and loans for 12 kinds of consumers' durable goods, providing the cost is more than \$50. It also covers instalment loans for most other consumer purposes. Instalment credits up to \$5,000 are subject to the regulation.

"The goods for which down payments are prescribed are as follows:

<u>Article</u>	<u>Down Payment</u>
1. Automobiles	33-1/3%
2. Cooking stoves	20%
3. Dishwashers	20%
4. Ironers	20%
5. Refrigerators	20%
6. Washing machines	20%
7. Combination units incorporating any item in 2 - 6	20%
8. Air conditioners, room unit	20%
9. Radio and television sets, phonographs	20%
10. Sewing machines	20%
11. Suction cleaners	20%
12. Furniture and soft-surface floor coverings	20%

"Maturities on all instalment credits subject to the regulation, whether to finance the purchase of these articles or not, must come within the following requirements:

<u>Credit</u>	<u>Maximum maturity</u>
1. Not exceeding \$1,000	15 months
2. Above \$1,000, except that monthly payment on amounts over \$1,000 must not be less than \$70.00	18 months

"Since November 1, 1947, when the old regulation ended, terms offered by merchants and lenders extending credit have been relaxed considerably. The requirements of the new regulation are somewhat less restrictive than those of last November but considerably tighter than terms now generally in effect. The down payment requirements on appliances are lowered from one-third to one-fifth. Also, to take care of late-model automobiles and certain

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"other items where the expenditure must necessarily be large, the maximum maturity for credits above \$1,000 is set at more than 15 months, running up to 18 months. At the same time, the scope of the regulation is broadened to include all credits up to \$5,000 whereas \$2,000 had been the limit under the previous regulation.

"Instalment credit for home improvements was eliminated from Regulation W after the close of the war, and it is at present not covered in the regulation. Because of the current inflationary situation, however, the Board is considering the advisability of an amendment to bring such credit under the regulation. Before deciding whether to do this, the Board wishes to give all who are interested an opportunity to express their views. Accordingly, the Board will publish in the Federal Register an invitation to interested persons to submit comments on the question whether such an amendment would be desirable.

"The Board is also giving consideration to an amendment which would have the effect of making unenforceable any contract which does not conform to the provisions of the regulation on down payments or maturities. A similar procedure for receiving comment will be followed.

"Regulation W will be administered in the field by the 12 Federal Reserve Banks and their 24 branches located conveniently throughout the country. Inquiries should be addressed to the nearest Federal Reserve Bank or branch."

Statement for Federal Register of Reasons for Issuance  
without Notice and Opportunity for a Hearing.

"The purpose of the Part is to prescribe appropriate terms in connection with consumer instalment credit, including appropriate supporting rules, in order to protect the Nation's monetary, banking, and credit structure, and interstate and foreign commerce, against increased inflationary pressures.

"(b) The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act are impracticable, unnecessary and contrary to the public interest in connection with the prescribing of this Part for the following reasons and good cause found:



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"(1) Because of present inflationary pressures, in the light of which Public Law 905 providing authority for the Part until June 30, 1949, was enacted by a special session of Congress, and in order to prevent the Part from being inoperative during a substantial part of the temporary period during which the Part is authorized, it is desirable in the public interest that the Part become effective more promptly than would be possible if such procedure were followed.

"(2) A similar regulation of the Board of Governors of the Federal Reserve System was in effect until November 1, 1947 [12 CFR 222, Supp. 1946] and that regulation as then in effect was the result not only of broad experience extending over a period of more than six years but also of extensive consultation with persons affected by the regulation. The new Part is substantially the same as such previous regulation, except for an increase in the size of credits covered by the regulation and certain relaxations from the previous regulation.

"(3) For the reasons stated in section 2(c) of the Rules of Procedure of the Board of Governors of the Federal Reserve System [12 CFR 262.2(e), Supp., 1946] a large part of the subject matter is not adapted to such procedure."

#### Notice of Proposed Changes

"The Board of Governors of the Federal Reserve System has adopted, and has had published in the Federal Register, Part 222 (relating to Consumer Installment Credit) to become effective September 20, 1948. That Part is also called Regulation W. The Board has under consideration, with a view to possible future adoption, certain proposed amendments to the Part. These proposed amendments may be described in general terms as follows:

1. Modernization and Repair Credits. - Amendments which would bring under this Part so-called modernization and repair credits, that is, credit for repairs, alterations or improvements upon real property in connection with existing structures. Such amendments would involve several changes in the provisions of this Part. One such change might be the elimination of the exemption of these credits which is now contained in clause (2) of section 222.7(g) of this Part. Another necessary change might be to add to section 222.9 of this Part a provision subject-

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- "ing such credits to such down payment (and maximum loan value) requirements, maximum maturities, or both, as the Board might prescribe.
2. Enforceability of Contracts. - Amendments to this Part which would have the effect of making unenforceable contracts (and related liens) which violate this Part, or which violate certain provisions thereof, such as those relating to down payments and maximum maturities. Such amendments would involve the deletion or amendment of section 222.8(c) of this Part, and might also involve changes in other provisions of this Part, including section 222.8(e) relating to non-compliance due to facts outside the Registrant's knowledge.

"This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 1946 Supp. 262.2). The proposed changes are authorized by section 5(b) of the Act of October 6, 1917, as amended (40 Stat. 415; 12 USC 95a), Executive Order No. 8843, dated August 9, 1941, and Public Law 905, approved August 16, 1948.

"Interested persons may submit data, views or arguments with respect to these matters; and any such material should be submitted in writing. Although submittals or requests may be sent directly to the Board, it is preferable that they be sent to the Federal Reserve Bank of the district in which the interested person resides or maintains his business, which will forward them to the Board. To be considered, all material must be received not later than September 20, 1948."

Unanimous approval was also given to the following wire to be sent to the Federal Reserve Banks with the understanding that the second and last paragraphs of the telegram to San Francisco would read "printer's proofs" instead of "photo offset negatives".

"Board has adopted new Regulation W to become effective September 20, 1948. The regulation will be released for morning papers of Friday, August 20, and no release should be made by the Federal Reserve Banks before that time. We will wire you copy of press statement prior to its release.

"We plan to airmail photo offset negatives to you on August 19th, in order for you to print and distribute

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"the regulation to interested persons in your district.

"The comments of the Reserve Banks in response to our wires were very helpful in preparing the new regulation, and Board appreciates the careful consideration which they reflected. You will recognize that it was impossible to adopt all suggestions, partly because there naturally were differences of opinion among the replies and also partly because of the limited time available for working out some of the points and fitting them into the regulation.

"It is essential that a System-wide firm and effective enforcement program be pursued, and you will be advised further in that regard.

"For your information pending your receipt of the photo offset negatives, we will wire you as soon as possible the textual changes in the new regulation from the regulation as revised effective December 1, 1946."

At this point the members of the staff, with the exception of Mr. Carpenter, left the meeting.

At the request of Mr. Draper, Mr. Carpenter read a memorandum addressed to the Board by Mr. Draper under date of August 12, 1948, which read in part as follows:

"At the meeting of the Personnel Committee this afternoon Chairman McCabe, because of his intended absence from the city, requested me to report the following information to the Board:

"As the result of a personal talk with Mr. Smead by Chairman McCabe, it was learned by the Chairman that Mr. Smead desires to retire on or about January 1, 1949. In view of this information, it was decided by the Personnel Committee to recommend to the Board the following changes:

"1. That Robert F. Leonard be appointed Director of the Division of Bank Operations, effective upon the retirement of Mr. Smead, and that, in order that he may become familiar with the work of the Division of Bank Operations, he be transferred to that Division,

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"as soon as his work can conveniently be arranged, with the temporary title of Associate Director. Mr. Leonard's initial duties in the Division of Bank Operations would be in connection with consumer credit under Regulation W.

"2. That Mr. Millard be appointed Director of the Division of Examinations, such appointment to become effective as of the date upon which Mr. Leonard assumes his duties as Associate Director of the Division of Bank Operations.

"3. That the appointment of a successor to Mr. Millard in the Division of Examinations be left open until Chairman McCabe's return. Chairman McCabe made this specific request to the other members of the Personnel Committee, and both Governor Vardaman and I were glad to accede to his request.

"4. That the salary of Mr. Horbett, Assistant Director of the Division of Bank Operations, be increased from \$10,330 to \$11,000 per annum, effective as of the beginning of the first pay roll period following the date upon which the increase is approved by the Board."

Mr. Draper stated that the changes proposed in the memorandum had been discussed with Messrs. Smead and Leonard and were entirely acceptable to them but that the proposed appointment of Mr. Millard had not been discussed with him personally.

By unanimous vote, the recommendations of the Personnel Committee were approved, with the understanding that the appointment of Mr. Leonard as Associate Director of the Division of Bank Operations and of Mr. Millard as Director of the Division of Examinations would become effective on September 1, 1948, that the appointment of Mr. Leonard as Director of the Division of Bank Operations would become effective January 1, 1949, and that announcement of the changes would be made immediately.

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Mr. Eccles stated that two or three weeks ago Mr. Reno Odlin, President of the Puget Sound National Bank of Tacoma and a member of the Federal Advisory Council, called on the telephone to say that his bank had filed an application for a branch which was denied by the Comptroller of the Currency and that an application of a bank owned by Transamerica Corporation to establish a branch in the same trade area had been granted. Mr. Odlin wanted to know, Mr. Eccles said, whether the Board favored the granting of authority for additional branches to banks in the Transamerica group, because it seemed to him to be entirely inconsistent for the Board to have brought an action under the Clayton Act against Transamerica Corporation and at the same time to favor the establishment of additional branches by the group. Mr. Eccles added that he told Mr. Odlin that he did not know that additional branches were being approved by the Comptroller of the Currency, that the action of the Board in issuing a complaint against Transamerica Corporation had been interpreted as a personal feud between him (Mr. Eccles) and A. P. Giannini and therefore he did not want to get involved in the matter any more than he now was, and that since the Board had assigned the subject of bank holding companies to Mr. Clayton for prior consideration Mr. Odlin should take the matter up with him.

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Mr. Eccles went on to say that from all the information available to the Board it appeared that the Comptroller of the Currency had been authorizing the Bank of America National Trust & Savings Association to establish additional de novo branches, that that was entirely incompatible with the position that the Board had taken in issuing its complaint against Transamerica under the Clayton Act, and that it would be his suggestion that the Board address a letter to the Comptroller of the Currency calling attention to the matter.

It was agreed unanimously that Mr. Clayton would prepare a draft of such a letter for consideration at a meeting of the Board on Friday, August 20, 1948.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 16, 1948, were approved unanimously.

Memorandum dated August 13, 1948, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the resignation of Walter F. Stettner, an economist in that Division, be accepted to be effective, in accordance with his request, at the close of business August 22, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to his credit as of that date.

Approved unanimously.

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

"Your wire August 13. Board approves the making of a loan on gold by your Bank to the Banque Nationale de la Republique Federative Populaire de Yougoslavie on the terms and conditions specified in your wire as follows:

"(A) The amount to be advanced not to exceed \$17,000,000 and to be 90 to 98 per cent (as determined by you depending on the type of gold pledged) of the value of the gold held in your vaults as collateral therefor;

"(B) Such loan to mature three months from the date thereof;

"(C) Renewal of any loan to be subject to agreement between Banque Nationale de la Republique Federative Populaire de Yougoslavie and yourselves with no commitment by you for renewal;

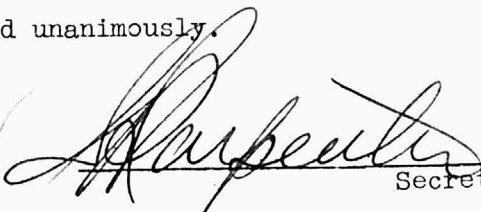
"(D) Such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date on which such loan is made.


"It is understood that the usual participation will be offered to the other Federal Reserve Banks.

"The Board notes that your Bank expects to advise the Banque Nationale of your understanding that in granting this loan you would not be facilitating sales of gold at premium prices, and that you would refer in this connection to the joint statement of July 18, 1947, of the Secretary of the Treasury and the Board of Governors, which requested all banks to refrain from facilitating such sales."

Approved unanimously.

Approved:

  
Secretary.

  
Chairman pro tem.