Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 27, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Townsend, Associate General Counsel
Mr. Solomon, Assistant General Counsel

Mr. Evans stated that, in accordance with the action at the meeting on October 15, 1948, a draft of an amendment to Section 6(g) of Regulation W, Consumer Instalment Credit, which would permit the delivery of listed articles on trial, on approval, or as demonstrators in anticipation of an instalment sale without a deposit equal to the down payment was sent to the Federal Reserve Banks for comment, that eight of the Reserve Banks responded that they approved the proposed amendment, three doubted its need but had no strong objection to it, and one was reluctant to have an amendment adopted if it would weaken the down payment provisions of the Regulation. Mr. Evans went on to say that, in view of those comments and in the light of the discussion at the meeting on October 15, he recommended adoption of the proposed amendment effective November 1, 1948.
Following a discussion of the proposed amendment and of the comments made by the Federal Reserve Banks, Mr. Evans moved that the following amendment to Regulation W, Consumer Installment Credit, be adopted, effective November 1, 1948:

"AMENDMENT NO. 1 TO REGULATION W

Issued by the Board of Governors of the Federal Reserve System

Effective November 1, 1948, section 6(g) of Regulation W is amended to read as follows:

'(g) Delivery in Anticipation of Installment Sale. - Except as provided in the following paragraph, in case a listed article is delivered in anticipation of an installment 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 installment sale.

In order to qualify as an exception to the preceding paragraph, the article must be an article listed in Group B, the delivery must be exclusively for the purpose of a bona fide trial, approval, or demonstration, and the Registrant must, within ten days after such delivery, obtain the down payment referred to in the preceding paragraph or the return of the article. Every such case shall be evidenced by a written agreement signed by the respective parties, of which a copy shall be given the prospective purchaser at or before the delivery of the article, and such written agreement shall clearly and prominently state that (1) the delivery is exclusively for the purpose of a bona fide trial, approval, or demonstration, and (2) the prospective purchaser will make the required down payment (the amount of which shall be stated in the agreement) within ten days after delivery of the article for trial, approval, or demonstration or will return or release the article within such ten-day period.

In calculating the maximum maturity in connection with transactions under either of the two preceding paragraphs, the date of delivery of the article sold shall be considered the date of the sale."

Mr. Evans' motion was put by the Chair and carried unanimously.
Unanimous approval was also given to the following telegram to the Presidents of all Federal Reserve Banks:

"The Board has today adopted Amendment No. 1 to Regulation W, effective November 1, 1948, which, under certain conditions, permits delivery of Group B articles for trial, approval or demonstration in anticipation of an instalment sale without a prior down payment. Please print the amendment and make appropriate distribution.

"The Board is issuing the following press statement containing the text of the amendment for release in the morning papers of Thursday, October 28, 1948:

"The Board of Governors of the Federal Reserve System has adopted an amendment to Regulation W -- Consumer Installment Credit -- which will permit customer trials of appliances without prior down payment under certain specified conditions. The amendment, which becomes effective November 1, 1948, is designed to reduce certain technical difficulties experienced by instalment dealers subject to the regulation, and is not intended to result in any relaxing of the credit restrictions.

"It has been the custom for some dealers to deliver appliances and other articles subject to the customer's approval or for demonstration purposes. When such deliveries were made in anticipation of an instalment sale, the regulation has heretofore required a down payment at or before the time of delivery. The amendment provides that if certain specified conditions are followed the seller may allow a trial period of not more than ten days without previously obtaining the down payment."

The following statement for publication in the Federal Register was also approved unanimously:

"The purpose of the amendment is to permit the delivery of certain 'listed articles' for a stated period 'on approval', 'on trial', or as a 'demonstrator', without a prior down payment provided there is compliance with the specified conditions deemed necessary for the effective administration of this Part.

"The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found, as
"stated in section 2(e) of the Board's Rules of Procedure 12 CFR 262.2(e) and especially because in connection with this permissive amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

Reference was made to a draft of telegram to the Presidents of all Federal Reserve Banks establishing for the three-month period ending September 30, 1948, the rate of interest per annum on the amount of Federal Reserve notes of each Bank on which interest should be calculated to be paid to the United States. The proposed rate provided for a deduction from earnings for the third quarter of the year of $10,000,000 to be added by the Federal Reserve Banks to reserves for contingencies in accordance with the procedure outlined in the Board's wire to the Federal Reserve Banks on July 1, 1948.

Chairman McCabe stated that he felt the amount of the deduction should be more than $10,000,000 in view of the large amounts of long-term bonds that the Federal Reserve Banks had been purchasing as a result of the policy of supporting the 2 1/2 per cent rate on long-term Government securities, that recently he mentioned the possibility of such a change to Mr. Bartelt, Fiscal Assistant Secretary of the Treasury and found no unfavorable reaction, and that he felt sure that, in the light of the discussion at the Presidents' Conference early this month, such action would be favored by the Presidents of all Federal Reserve Banks. He also pointed out that
the members of the Board had indicated at the meeting with the Presidents on October 5, 1948, that they would be favorable to such action.

There was a discussion of Chairman McCabe’s suggestion, following which, upon motion by Mr. Evans, it was voted unanimously that (1) $15,000,000 instead of $10,000,000 be deducted from earnings during the three months ended September 30, 1948, for addition to the contingent reserves of the Federal Reserve Banks, (2) that rates of interest on Federal Reserve notes for the third quarter be established which would provide for the larger deduction, (3) that Mr. Smead be requested to call Mr. Bartelt on the telephone and inform him of what the Board intended to do, and that the Secretary be requested to advise the members of the Board who were not at this meeting and Mr. Davis, Chairman of the Presidents’ Conference, of the above actions, and (4) that, in the absence of objection from the absent members of the Board, an amended wire be sent to the Federal Reserve Banks advising them of the established rates of interest and payments to be made to the Treasury for the third quarter.

Secretary’s Note: Following the meeting, Mr. Smead discussed the above matter by telephone with Mr. Bartelt, who stated that he thought the decision of the Board was the correct one, and that the Treasury would have no objection to it. Mr. Carpenter talked to Mr. Davis as Chairman of the Presidents’ Conference, who stated that he was satisfied that all of the Presidents would be delighted with the decision of the Board, particularly since they had not anticipated that the amount deducted would be increased before the deduction for the first quarter of next year. Mr. Carpenter also talked with Messrs. Eccles, Szymczak, Vardaman, and Clayton, all of whom stated that they were in agreement with the action. The telegram sent to the Federal Reserve Banks on October 29 in accordance with the above action read as follows:
"The Board of Governors of the Federal Reserve System under authority of the fourth paragraph of Section 16 of the Federal Reserve Act hereby establishes for the three months' period ending September 30, 1948, the rate of (1) per cent interest per annum on that amount of the Federal Reserve notes of your Bank which equals the average daily amount of its outstanding Federal Reserve notes during such period less the average daily amount of gold certificates held during such period by the Federal Reserve Agent as collateral security for such notes. Interest in an amount calculated in the manner and at the rate specified above shall be paid to the United States on October 29, 1948.

According to daily balance sheets, the average daily amount of outstanding notes of your Bank during the third quarter of 1948 not covered by gold certificates with the Federal Reserve Agent was $(2)$. At the rate specified above, payment to Treasury for third quarter will be $(3)$. Payment should be credited to Treasurer's General Account as Miscellaneous Receipts, Symbol 1841-Interest Collected, Section 16 Federal Reserve Act as amended. Your Bank's share of deduction of $25,000,000 for second and third quarters of year in accordance with October 27 wire is $(4)$. No statement being given to press with respect to this action.

<table>
<thead>
<tr>
<th>Bank</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>.95</td>
<td>$1,021,180,522</td>
<td>$2,445,237.74</td>
<td>$1,641,663</td>
</tr>
<tr>
<td>New York</td>
<td>3.93</td>
<td>893,551,732</td>
<td>8,851,303.13</td>
<td>6,136,413</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>.95</td>
<td>1,136,591,398</td>
<td>2,721,591.46</td>
<td>1,822,059</td>
</tr>
<tr>
<td>Cleveland</td>
<td>.99</td>
<td>1,438,501,153</td>
<td>3,589,553.01</td>
<td>2,439,228</td>
</tr>
<tr>
<td>Richmond</td>
<td>.89</td>
<td>1,067,139,569</td>
<td>2,393,901.04</td>
<td>1,591,331</td>
</tr>
<tr>
<td>Atlanta</td>
<td>1.04</td>
<td>689,150,486</td>
<td>1,806,518.32</td>
<td>1,219,820</td>
</tr>
<tr>
<td>Chicago</td>
<td>1.10</td>
<td>1,874,476,016</td>
<td>5,197,731.86</td>
<td>3,534,670</td>
</tr>
<tr>
<td>St. Louis</td>
<td>.96</td>
<td>809,056,930</td>
<td>1,957,696.11</td>
<td>1,318,608</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>1.02</td>
<td>433,999,649</td>
<td>1,115,795.26</td>
<td>752,120</td>
</tr>
<tr>
<td>Kansas City</td>
<td>.99</td>
<td>673,881,653</td>
<td>1,681,565.51</td>
<td>1,134,825</td>
</tr>
<tr>
<td>Dallas</td>
<td>1.41</td>
<td>470,791,262</td>
<td>1,673,179.25</td>
<td>1,124,092</td>
</tr>
<tr>
<td>San Francisco</td>
<td>2.23</td>
<td>594,872,049</td>
<td>3,343,669.85</td>
<td>2,285,171</td>
</tr>
</tbody>
</table>

Chairman McCabe made an informal report of his discussion in Boston yesterday with Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, with respect to the consideration being given by the directors to the selection of a President to succeed Mr. Whittemore.
At this point Messrs. Riefler, Townsend, and Solomon withdrew from the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memoranda from the heads of the divisions indicated below recommending appointments to the staff in those divisions, effective as of the dates upon which the appointees enter upon the performance of their duties after having passed the usual physical examination:

<table>
<thead>
<tr>
<th>Date of Memo</th>
<th>Name</th>
<th>Title</th>
<th>Salary</th>
<th>Duration of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/25/48</td>
<td>Earle J. Wade</td>
<td>Secretary to Mr. Sherman</td>
<td>$2,974.80</td>
<td>Temporary</td>
</tr>
<tr>
<td>10/21/48</td>
<td>Harrison Parker</td>
<td>Research Asst.</td>
<td>3,351.00</td>
<td>Temporary</td>
</tr>
<tr>
<td>10/25/48</td>
<td>Mrs. June E. Crawley</td>
<td>Clerk</td>
<td>2,498.28</td>
<td>Indefinite</td>
</tr>
</tbody>
</table>

Approved unanimously.

Memorandum dated October 25, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Otto G. Kiehn, a research assistant in that Division, be accepted to be effective, in accordance with his request, at the close of business October 31, 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.

Memorandum dated October 25, 1948, from Mr. Millard, Director of the Division of Examinations, recommending that the temporary appointment of J. V. Fisler, an Assistant Federal Reserve
Examiner in that Division who had been loaned to the Board by the Federal Reserve Bank of Kansas City on April 1, 1947, be made permanent, with no change in his official designation, and with an increase in his basic salary from $3,840 to $3,852.60 per annum, effective October 31, 1948. The memorandum also recommended that Mr. Fisler be given credit on the Board's records for 13 days of annual leave, the amount standing to his credit at the Federal Reserve Bank of Kansas City when he joined the Board's road force.

Approved unanimously.

Memorandum dated October 25, 1948, from Mr. Millard, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, Philip C. Rachford be appointed as an Assistant Federal Reserve Examiner, with basic salary at the rate of $3,351 per annum, and with official headquarters at Nashville, Tennessee.

By unanimous vote, Philip C. Rachford was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an
Assistant Federal Reserve Examiner, with official headquarters at Nashville, Tennessee, and with basic salary at the rate of $3,351 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

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

"Some manufacturing concerns and other business organizations that are not otherwise engaged in the instalment credit business have arrangements for making certain instalment loans to their employees. Questions have been asked from time to time as to whether or not companies with such arrangements are subject to Regulation W in connection with such activities. If the companies are subject to the regulation they are, of course, required to follow the requirements of the regulation in connection with the loans, and also to file a simple registration statement as specified in section 2(b) of the regulation.

"As indicated in section 2(a) of the regulation, the question of whether or not a company is subject to the regulation depends on whether or not it is 'engaged in the business' that is covered by the regulation. The answer depends upon all the relevant facts of the particular situation, and in the case of organizations with many subsidiary corporations, the status of each subsidiary would depend on the facts relevant to it. It is possible to state some general principles, however, that are applicable to such situations. These principles have been stated before in other connections under the regulation, but it may be helpful to restate them here.

"In the first place, a company may be subject to the regulation even though the making of instalment loans to its employees is a small or almost insignificant part of the company's total operations. Nor is a company excluded from the regulation merely because the company's purpose in making such loans may be chiefly or even exclusively to help its employees rather than to obtain earnings from the loans."
"On the other hand, if a company's loans were confined exclusively to those exempted by section 7 of the regulation, the company would not be subject to the regulation. It should be noted, however, that loans are not exempted unless they fall squarely within the terms of one of the exemptions. For example, medical loans referred to in section 7(h) would not be exempt unless the lender accepted in good faith the statement referred to in the provision. In other words, the specific requirements of the particular exemption must be met in each case of the loan is to be exempted."

Approved unanimously.

Letter to the Honorable James O. Eastland, United States Senate, reading as follows:

"In the absence of Governor Vardaman we are replying to your letter of October 13, 1948, concerning a letter of October 8 from Mr. E. C. Polk of Hattiesburg, Mississippi, in which Mr. Polk voiced an objection to a proposed amendment to Regulation W which would have the effect of making unenforceable contracts not conforming with requirements of the Regulation.

"The proposed amendment which has been made the subject of careful study is still under review, but we believe it might be helpful to Mr. Polk in his consideration of this matter if we clarified the particular aspect which seems to have given him the most concern. He has apparently assumed that the proposed amendment would render unenforceable contracts which, through inadvertence, might not conform strictly to the provisions of the Regulation. The Regulation has always contained a provision to the effect that clerical mistakes resulting from 'excusable error' need not be considered to be violations and the proposed amendment would not be intended to change that provision.

"We do appreciate your correspondent's point of view, and you may be certain that it will not be overlooked in our final decision."

Approved unanimously.

Approved:

[Signature]

Secretary.

[Signature]

Chairman.