Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 3, 1949. The Board met in the Special Library at 2:50 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
Mr. Millard, Director of the Division of Examinations

Before this meeting the Presidents of the Federal Reserve Banks submitted a memorandum covering topics discussed in their separate meeting on May 2, 1949, which were to be reviewed with the Board in the joint meeting to be held today at 3:30 p.m. The matters were discussed and it was understood that responses would be made substantially along the lines recorded in the separate minutes of that meeting.

Mr. Szymczak inquired whether the Board should discuss with the Presidents at the joint meeting the recommendation approved by the personnel officers of the Federal Reserve Banks at their recent meeting at Atlanta with respect to the regular meetings of such officers. It was agreed that the matter need not be discussed at this time.

Mr. Nelson raised the question whether the suggestion of the Board that two of its members or a member of the Board and its staff be selected as associates of the Investment Committee of the Federal Reserve Retirement System would require an amendment to the Rules and Regulations of the Retirement System. It was the view of those present that the Rules and Regulations should not be amended and that the suggested association should be an informal one.

At this point Messrs. Riefler, Vest, Leonard, and Millard withdrew and the action stated with respect to each of the matters hereinafter referred to was taken by the Board.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 2, 1949, were approved unanimously.

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

> "In accordance with your letter of April 25, 1949, and upon the basis of the understanding stated therein, the Board of Governors approves the payment of a retainer fee at the rate of $5,000 per annum to the firm of Squire, Sanders and Dempsey as Counsel for the period from May 1 through December 31, 1949."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

> "For some time the Board has had under consideration the question whether trust funds held by a member bank which are commingled and placed in a single deposit account in the bank's own banking department may properly

"be classified as time deposits for reserve purposes under the Board's Regulation D.

"The question arose several months ago as the result of the adoption by a New York trust company of a practice under which a portion of trust funds previously deposited in its banking department on a demand basis was reclassified as a time deposit, open account, another portion was reclassified as a savings deposit, and the remainder was continued as a demand deposit. Generally speaking, the portion of the funds of any particular trust included in each of these deposit accounts is not specifically identified. As the result of some publicity given that case, a number of member banks in other parts of the country have adopted, or have considered adopting, a similar practice. In some of the New York cases, interest is paid by the banking department on the savings deposit and on the time deposit, open account, but only in an amount sufficient to permit the trust department to credit interest on the funds of certain court trusts with respect to which interest is required to be paid under State law; and consequently the trust department does not credit interest to all trust accounts whose funds are included in the time and savings deposits. In other cases it is understood that the trust funds are deposited on a time basis without provision for payment of any interest.

"The Board gave some consideration to the possibility of taking the position that trust funds so deposited in the banking department may properly be classified as time deposits if the portion of trust funds placed in such a deposit is determined on the basis of an estimate of the aggregate amount of trust funds which will not be needed for disbursement by the trust department within the near future, notwithstanding the fact that there is no identification of the interest of each trust estate in such deposit.

"After careful study of the matter, however, it has not seemed desireable to adopt this position, and the Board is now considering an amendment to the Board's Regulation D (with a similar amendment to Regulation Q) under which the deposit of trust funds on a time basis in the banking department of a member bank would be permitted only if each time deposit account includes the funds of a single trust or if the records of the bank show the interest of each trust in such deposit account. A copy of the proposed amendment to Regulation D is enclosed.

"The Board has requested the Federal Reserve Banks to submit any views which they may have regarding the proposed amendment to the Board's regulations with the next 30 days with the thought of publishing advance notice of the proposal in the Federal Register as promptly as possible. The Board will be glad to receive also any comments which your Corporation may care to submit with respect to this matter."

Approved unanimously, together with a similar letter to the Honorable Preston Delano, Comptroller of the Currency.

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

"A Federal Reserve Bank has reported the case of a registrant whose business consists entirely of selling vacuum cleaners at a price of less than $100. An investigation recently completed showed violations of both the down payment and maturity provisions as they existed prior to Amendment No. 4. However, in view of Amendment No. 4, extensions of credit in connection with the sale of vacuum cleaners in this price range are no longer subject to the regulation. The Reserve Bank considered that this registrant would normally have been classified on report form F. R. 639 as a Class B violator and would have been called in for a disciplinary conference.

"Since the purpose of disciplinary conferences and, in fact, the overall purpose of the enforcement program is to obtain compliance with the provisions of the regulation, the Bank decided that a disciplinary conference should not be called in this case. However, the Bank felt that it should not remain silent about the violations in past transactions and decided to write the registrant asking for explanations of the violations and to obtain assurance from the registrant that in the event its business operations again became subject to Regulation W, because of the handling of higher-priced merchandise or further changes in the regulation's provisions, it would comply strictly with the regulation's terms.

"The question arose as to how the violator should properly be classified on report form F. R. 639. Since the number of such cases where registrants handle exclu-

"sively articles costing less than $100 will be small, such violators should not be reported as either Class A or Class B but should be commented on under item '1' of the additional information required on form F. R. 639."

Approved unanimously.

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

"In reply to a recent inquiry concerning Regulation W, the Board has issued the following interpretation:

"The Board has been asked whether an arrangement employed by a Registrant to promote the sale of listed articles is permitted by Regulation W. The Registrant delivers to a customer - a prospective purchaser- a used listed article pursuant to a so-called 'rental contract' of indefinite duration, but terminable by the customer or by the Registrant upon default in the agreed monthly rental charge. Although such contract indicates that the article so delivered is not for sale, the Registrant agrees to give the customer as a credit on the purchase price of a new, similar listed article, a sum equal to the first five monthly instalments of rent, should the customer decide to purchase a new article. The case as presented shows that approximately 85 to 90 per cent of the rentals result in purchases, 75 per cent of which are on an instalment basis.

"Viewed in the light of all pertinent facts and considerations, arrangements of the foregoing nature look toward the negotiation of sales and, at the outset, should comply with the requirements of section 6(g) concerning deliveries in anticipation of instalment sales. Accordingly, the Board's view is that arrangements of the type in question are not permitted by the regulation."

Approved unanimously.

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

"In reply to a recent inquiry concerning Regulation W, the Board has issued the following interpretation:

"The Board has been asked whether a certain arrangement for the promotion of sales of listed articles by a

"Registrant is permitted under Regulation W. The Registrant sets aside for a customer a new listed article which is not to be delivered until there has been an accumulation of the required down payment on that article. For the customer's use in the meantime, however, the Registrant delivers another, similar listed article to the customer on loan. Although there is no rental agreement between the parties, the payments made by the customer towards the required down payment on the new article set aside are entered in the Registrant's records as 'rental allowance' or 'reconditioned allowance'.

"In the Board's view, such an arrangement is not permitted by the regulation. The delivery of the article for the customer's use pending accumulation of the required down payment on the new article set aside precludes such an arrangement from any benefit of section 6(e) concerning bona fide 'lay-away' plans. Furthermore, viewed in the light of all pertinent facts and considerations, such an arrangement would be contrary to section 6(g) or section 6(i) concerning, respectively, delivery in anticipation of an instalment sale and evasive devices."

Approved unanimously.

Secretary.

Approved:

Chairman.