Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 17, 1947. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Parry, Director of the Division of Security Loans
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Townsend, Assistant General Counsel

As stated in the minutes of December 26, 1946, Mr. Vardaman was absent on official business.

There were presented telegrams to Mr. Whittemore, President of the Federal Reserve Bank of Boston; Mr. Treiber, Secretary of the Federal Reserve Bank of New York; Mr. McCreedy, Secretary of the Federal Reserve Bank of Philadelphia; Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago; Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis; and Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on January 15, by the

Federal Reserve Banks of New York, Philadelphia, and Chicago on January 16, 1947, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a draft of a letter to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, prepared in response to an oral request made by him that the Board waive the requirement contained in its letter of May 13, 1946, that Mr. Fogg, Auditor of that Bank, terminate within a year his connection as a paid advisor to the Frances E. Willard Settlement. Chairman Eccles stated that he had gone over the file and felt the Board should not change its position unless new factors had come into the picture which would warrant a change.

The matter was discussed in the light of the circumstances in which the Board's letter of May 13, 1946, was approved and the consideration given to Mr. Kincaid's connection with the University of Virginia while serving at the same time as Vice President of the Federal Reserve Bank of Richmond, and it was the view of the members present that the Board should adhere to the position taken in its original letter.

It was agreed unanimously that the letter to Mr. Creighton should be redrafted on the basis of the discussion and resubmitted to the Board for consideration.

Mr. Nelson withdrew from the meeting at this point.

There was then presented a letter dated January 10, 1947, from Chairman Harl of the Federal Deposit Insurance Corporation transmitting a copy of a letter dated December 17, 1946, from the Corporation Audits Division of the General Accounting Office requesting permission to examine reports of examination of twenty-eight insured banks some of which were national and State member banks. Mr. Harl's letter also enclosed a copy of an opinion of Counsel for the Federal Deposit Insurance Corporation dated December 20, 1946, concerning the making of such records available to the General Accounting Office, and asked that the Board advise the Federal Deposit Insurance Corporation whether it was satisfactory to the Board for the Corporation to furnish the information requested by the General Accounting Office insofar as it pertained to State member banks.

Mr. Leonard said that the General Accounting Office considered that under the George Act, Public Law No. 4, it had authority to survey the operating policies, procedures, and practices of the Federal Deposit Insurance Corporation, and that examination of the reports in question was necessary in order that the General Accounting Office may perform its duties under that Act. He also stated that he had been informed by Mr. Folger, Chief National Bank Examiner, that the Comptroller of the Currency had received a similar inquiry from Mr. Harl and had advised the Federal Deposit Insurance Corporation in reply that reports of examination of operating national banks should not be made available to the General Accounting Office, but that in the case of closed national banks the white section of the report, but not the confidential section, could be made available.

Chairman Eccles stated that he felt the matter should be considered from the standpoint of what the reasons were for not making reports available to the General Accounting Office, and that if there were no good reasons for refusing, the Board should give its approval to the reports being furnished.

In the discussion that followed, Messrs. Vest and Townsend said there appeared to be no legal reason for not making the reports available, and that the opinion of Counsel of the Federal Deposit Insurance Corporation which accompanied the letter from Mr. Harl reached the conclusions that (1) the George Act did not, and did not intend to, require the General Accounting Office to make any report on the practices and policies of the Federal Deposit Insurance Corporation with respect to the supervisory function, (2) the Federal Deposit Insurance Corporation in its discretion could make available to the General Accounting Office the examination reports and appertaining files relating to insured nonmember banks, and (3) if the Corporation decided to comply with the request, compliance be confined to reports of closed nonmember banks only. Mr. Townsend suggested that there appeared to be no basis for a decision to make only part of an examination report available.

Consideration was given to the various factors which would enter into a decision by the Board on the matter including the position in which it might be placed if it should refuse to permit the use of reports of State member banks. It was agreed that, if possible, the position of the three bank supervisory agencies should be a uniform one and that, therefore, before a reply to the letter from the Federal Deposit Insurance Corporation was made, it would be desirable to discuss the matter informally with representatives of that Corporation and the Office of the Comptroller of the Currency.

> Accordingly, upon motion by Mr. Evans, it was agreed that Messrs. Leonard and Townsend should meet with representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency and report back to the Board at a later meeting or submit for consideration by the Board a draft of reply to Mr. Harl's letter.

In accordance with the understanding reached at the meeting on January 14, 1947, there was a further discussion of what, if any, action should be taken by the Board to reduce the margin requirements prescribed in Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Chairman Eccles presented a draft of statement along the lines referred to at the earlier meeting, it being the feeling of the members of the Board present that since an explanatory statement was issued by Chairman Eccles when margin requirements were increased to 100 per cent in January 1946, it was desirable for him to issue a similar statement of reasons for action by the Board reducing margin requirements. The statement was discussed and changed to read as follows:

"When the Board increased margin requirements from 75 per cent to 100 per cent, effective January 21, 1946, accumulated and prospective inflationary pressures had reached dangerous proportions because of the vast expansion of the country's money supply resulting from war financing, the rising level of current incomes, the huge backlog of public wants and needs, and the acute shortage of most goods to satisfy this demand. Under these circumstances, the Board felt that any growth in the use of credit for the purpose of buying securities could only intensify inflationary pressures. While it was recognized that margin requirements would have only a minor influence in combating general inflation, the Board nevertheless felt that it should do what it could to curb inflationary developments brought about by speculative activity in the stock markets.

"In the intervening year economic conditions and prospects have altered materially. The supply of money was reduced during the year as a result of a substantial decrease of the Government debt held by the banking system. This has had a salutary effect. Clearly this policy should be continued. By combining continued high levels of taxation with prudent economy in all Government expenditures, it will be possible to realize a budgetary surplus which can be used to reduce further the public debt held by the banking system. This would continue to have an anti-inflationary influence depending upon the size of the surplus.

"Notwithstanding industrial strife and other obstacles, the 1946 production of the economy reached new "peacetime levels so that by the end of the year 10 million demobilized veterans, together with millions of those who had jobs in war industries, had been largely absorbed in peacetime production. Full and sustained production depends on an extended period of industrial peace, the avoidance of further wage increases that bring about increased prices, and the downward adjustment of prices which are now out of line.

"The supply of goods and services is now more nearly in balance with demand than was the case a year ago. Shortages in many important lines have been met and in many other lines are rapidly being overcome. The removal of various Government controls in 1945 and 1946, together with tax reduction and repeal of the excess profits tax, ushered in a sharp rise in prices during the year just ended, so that the cost-of-living index rose from 129.9 in January to 153.3 in December of 1946. This is approximately as much as the rise in prices during the four preceding war years. As a result of higher prices and of the narrowing margin between individual incomes and expenditures, the intensity of demand has abated considerably.

"In contrast with the behavior of most prices, stock prices, which had risen sharply for several months prior to January 1946 and continued to rise somewhat further after that time, subsequently declined materially. The level now is about the same as that existing when margin requirements were increased to 75 per cent. At the same time, the volume of credit in the stock market has been substantially reduced until that used for carrying listed securities is at about the lowest level in the last thirty years. Undoubtedly the rise in stock prices and the subsequent fall would have been much greater if the Board had not increased the requirements, first from 50 to 75 per cent as of July 5, 1945, then from 75 to 100 per cent early in 1946.

"It now appears that inflation has largely run its course, assuming that fiscal, labor and management policies, such as I have indicated, are pursued. Accordingly, some readjustment in margin requirements is appropriate at this time. By its action the Board has restored the 75 per cent level in effect from July 5, 1945 until January 21, 1946.

"While it is evident from a large volume of correspondence which has come to me that there is a strong "public sentiment against margin trading under any conditions, it should be remembered that the mandate which Congress gave to the Reserve Board applies only to listed securities and specifies that margin requirements shall be imposed for 'the purpose of preventing the excessive use of credit' in such stock market operations. The Board is not authorized to impose a permanent ban on margin trading.

"As I said in discussing this subject several months ago, this is not a one-way street. The present adjustment to changed economic conditions is restrictive without being prohibitive. Further action will depend upon the course of economic events."

During the discussion of the above statement, Chairman Eccles stated that he had not been able to get in touch with the White House or the Secretary of the Treasury to advise them of the contemplated action of the Board to reduce margin requirements and it was agreed that before any action by the Board became effective both the White House and the Secretary of the Treasury should be advised.

Chairman Eccles also stated that by far the greater part of the gambling and speculation that takes place in securities was in the form of margin trading transactions effected through brokers and resulted to a material extent from activities of brokers to initiate securities transactions in order to earn commissions, that there was relatively little speculative credit involved in bank loans on securities and banks were not interested in increasing trading in securities and therefore did not encourage customers to buy and sell as brokers do, that when the Board prevented margin trading it was preventing a large part of such speculative trading, and that a great many people were in favor of such a policy. In these circumstances, it was Chairman Eccles' suggestion that in connection with any action that the Board might take at a later date further to reduce margin requirements consideration should be given to the desirability of establishing a substantially lower margin requirement on loans by banks for the purpose of purchasing or carrying securities than was allowed in connection with loans by brokers for the same purpose. He also said that bank credit could fully meet the needs of the country for temporary credit in connection with investments, that the opinion had been expressed that the denial of this type of credit to the capital markets seriously handicapped the proper functioning of such markets, and that if the amount of bank credit made available for this purpose were increased it would meet the problem without increasing the opportunity for speculating in securities by margin trading through brokers. He realized that, as mentioned in the statement set forth above, the Board could not retain the 100 per cent margins indefinitely and that perhaps the proposed reduction to 75 per cent would not have a very material effect on the markets and would not be satisfactory to those concerned. He added that he felt that when further action was taken at a later time the Board should study carefully whether it should reduce to 50 per cent the margins required in connection with bank loans for the purpose of purchasing or carrying securities and retain the 75 per cent margin required under Regulation T. That action, he said, would result in wide objections and might bring the matter before

Congress where the merits of the Board's action could be fully discussed. It was his view that the law should be amended so as completely to eliminate margin trading through brokers and to eliminate any regulation of bank credit for the purpose of purchasing or carrying securities with the understanding that the necessary regulation of the use of such credit for that purpose would be handled by the bank supervisory agencies as a part of their regular function of examination.

At the conclusion of the discussion, Mr. Draper moved that (1) the supplements to Regulations T and U be amended as follows, (2) that Chairman Eccles be authorized to give the statement set forth above to the press for release in the morning papers of Saturday, January 18, 1947, (3) that the routine press statement set forth below also be released by the Board for publication in the morning papers of Saturday, January 18, 1947, and (4) that the amendments and press statements be sent by wire to the Federal Reserve Banks this afternoon with the request that they print the amendments and distribute them to interested persons in their respective districts; all with the understanding that Chairman Eccles would confer by telephone this afternoon with the White House, the Secretary of the Treasury, and Mr. Vardaman, and that if Mr. Vardaman did not approve or there were some other reason why the amendments should be deferred, the action of the Board on the motion would not become effective and the matter would be given further consideration at a meeting of the Board to be held next week following Mr. Vardaman's return to Washington.

Effective February 1, 1947, the Supplement to Regulation T is hereby amended to read as follows:

"SUPPLEMENT TO REGULATION T

"Issued by the Board of Governors of the Federal Reserve System

"Effective February 1, 1947

"<u>Maximum loan value for general accounts.</u> - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 25 per cent of its current market value.

"<u>Maximum loan value for specialists' accounts.</u> - The maximum loan value of a registered security (other than an exempted security) in a specialist's account, subject to section 4(g) of Regulation T, shall be 50 per cent of its current market value.

"<u>Margin required for short sales in general accounts.</u> - The amount to be included in the adjusted debit balance of a general account, pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 75 per cent of the current market value of each such security.

"<u>Margin required for short sales in specialists' accounts.</u> - The amount to be included in the adjusted debit balance of a specialist's account, subject to section 4(g) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 per cent of the current market value of each such security."

Effective February 1, 1947, the Supplement to Regulation U is hereby amended to read as follows:

"SUPPLEMENT TO REGULATION U

"Issued by the Board of Governors of the Federal Reserve System

"Effective February 1, 1947

"For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 25 per cent of "its current market value, as determined by any reasonable method.

"Loans to specialists. - Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a maximum loan value of 50 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a member of a national securities exchange who is registered and acts as a specialist in securities on the exchange for the purpose of financing such member's transactions as a specialist in securities."

Press Statement

"The Board of Governors of the Federal Reserve System today amended its Regulations T and U to reduce margin requirements to 75 per cent, effective February 1, 1947. These requirements will be applicable both to purchases of securities and to short sales. The change will restore margins to the levels prevailing from July 5, 1945, to January 21, 1946, at which time purchases were put on a cash basis and short sales required to have 100 per cent margins."

Mr. Draper's motion was put by the Chair and carried unanimously.

Secretary's Note: During the afternoon Chairman Eccles advised the Secretary's Office that he had talked over the telephone with the White House and the Secretary of the Treasury who interposed no objection to the action of the Board. He also said that he talked with Mr. Vardaman by telephone who stated that he favored the proposed action. Accordingly, the two press statements were released to the press for publication in the morning papers of Saturday, January 18, 1947, and the telegram was sent to the Federal Reserve Banks in accordance with the Board's action.

Unanimous approval was also given to the following statement for publication in the Federal Register in accordance with the requirements of the Administrative Procedure Act:

"This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to change loan values and margin requirements (omit 'and margin requirements' for Regulation U) in order to carry out the purposes of the act in the light of present economic conditions.

"The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the thirty day prior publication described in section 4(c) of such Act, are impracticable, unnecessary and contrary to the public interest 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."

At this point Messrs. Parry, Thomas, Vest, Leonard, Brown, and Townsend withdrew from the meeting and the action stated with respect to each of the matters hereinafter set forth was then taken by the Board:

Memorandum dated January 16, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties, James E. McGeary be appointed as an Assistant Federal Reserve Examiner, with basic salary at the rate of $3,397.20 per annum, and with official headquarters at Washington, D. C. The memorandum also stated that Mr. McGeary had passed the usual physical examination, and that it was contemplated that he would become a member of the Federal Reserve retirement system.

By unanimous vote, Mr. James E. McGeary 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 Washington, D. C., and with basic salary at the rate of $3,397.20 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Memorandum dated January 16, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Hazel M. Glover as a cafeteria helper in that Division, on a temporary indefinite basis, with basic salary at the rate of $1,690.00 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Mrs. Glover would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated January 15, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of James H. McNally, a clerk-stenographer in that Division, be accepted to be effective, in accordance with his request, at the close of business February 6, 1947, with the understanding that a lump sum payment would be made for any annual leave remaining to his credit as of that date.

Approved unanimously.

Memorandum dated January 15, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Mary C. McGuire, a cafeteria helper in that Division, be accepted to be effective, in accordance with her request, at the close of business January 14, 1947, with the understanding that a lump sum payment would be made for any annual leave remaining to her credit as of that date.

Approved unanimously.

Letter to Mr. Woolley, Vice President and Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

> "In accordance with the request contained in your letter of January 9, 1947, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Kansas City:
>
> Lewis A. Brown — William C. Fogle
> Edward L. Copeland — Lawrence W. Tawson
>
> "Appropriate notations have been made in our records of the names reported as deletions."

Approved unanimously.

Letter to the board of directors of the "Citizens Bank", Colquitt, Georgia, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta.

Approved unanimously, together with the following letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta:

"The Board of Governors of the Federal Reserve System approves the application of the Citizens Bank, Colquitt, Georgia, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Georgia, for his information.

"Since the amount of estimated losses shown in the report of examination for membership is reported to have been charged off, the usual condition of membership requiring the elimination of losses has not been prescribed.

"It is assumed that you will follow the matter of the bank's reducing to within statutory limits the excess balances in nonmember banks."

Thereupon the meeting adjourned.

Secretary.

Approved:

Chairman.