Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 28, 1949. The Board met in the Board Room at 2:50 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Solomon, Assistant General Counsel

Chairman McCabe referred to the discussion at the meeting on March 14, 1949 of possible changes in margin requirements provided in Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and stated that he felt consideration should be given to a reduction in the requirements at this time.

The matter was discussed in the light of changes in business and credit conditions in recent months and the increasing evidences that inflationary pressures were declining and that a

readjustment from a highly inflationary situation was taking place. It was the view of the members of the Board that the time had arrived when action should be taken to reduce margin requirements from 75 per cent to 50 per cent. During the discussion, Chairman McCabe stated that he had talked informally with Mr. Hanrahan, Chairman of the Securities and Exchange Commission, regarding the proposed reduction. While the meeting was in progress he was called from the room to answer a telephone call and upon his return stated that Mr. Hanrahan had advised during the telephone conversation that the Commission would interpose no objection to a reduction in margin requirements to 50 per cent.

Mr. Clayton stated that the existing regulations provide that rights in the hands of the original holder may be exercised and the stock purchased with a margin of 50 per cent, and that if action were taken by the Board to reduce margin requirements to that figure it might be desirable to reduce to 33-1/3 per cent the margin required on stocks purchased with rights in the hands of the original holder.

Reference was made in this connection to the informal suggestion that had been made by Mr. Eugene Meyer, Chairman of the Washington Post, that Regulations T and U be amended to permit the original and subsequent holders of rights to purchase stock to buy such stock on a reduced margin under an arrangement which

would provide for the payment of the balance of the required margin in instalments. The objective of this change would be to encourage the raising of business capital through the issuance of additional equity shares. It was agreed that while this change might be a desirable one, it presented the question whether the privilege should be granted to rights in the hands of original holders or also in the hands of subsequent purchasers, and that other technical questions were involved which should be resolved before a decision on the change was made.

There was also a discussion of the questions (1) whether transactions of specialists should be exempted from the regulation, and (2) whether there should be a further liberalization of the regulation with respect to substitutions in undermargined accounts. On the first point it was stated that this matter was under active discussion with representatives of the New York Stock Exchange, that considerable time would be required to consider all of its aspects, and that until the study was completed such a change in the regulation should not be made. In this connection it was pointed out that the present regulation provides a margin requirement of 50 per cent for transactions in a specialist's account and question was raised whether, if margin requirements prescribed by the regulation were reduced from 75 per cent to 50 per cent, the differential in favor of transactions in such accounts should be

continued. This differential was first established when margin requirements were raised from 50 to 75 per cent in July 1945, and it was agreed that if margin requirements were reduced to 50 per cent at this time there would be no need for continuing the differential.

On the question of substitutions it was stated that the present regulations as amended effective March 1, 1948, permitted substitutions on the same day of one security for another in an undermargined account, and it was the consensus that there was no need for further liberalization of these provisions at this time.

Following the discussion, Mr. Clayton moved that margin requirements on both long and short sales be reduced from 75 per cent to 50 per cent, effective Wednesday, March 30, 1949.

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

Secretary's note: Mr. Vardaman had participated in previous informal discussions of this matter and had asked that he be recorded as favoring the above action.

To carry out the foregoing motion, the following amendments to the supplements of Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, were approved unanimously:

"SUPPLEMENT TO REGULATION T
"Issued by the Board of Governors of the Federal Reserve System
"Effective March 30, 1949

"Maximum loan value for general accounts. -- 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 50 per cent of its current market value.

"Margin required for short sales in general accounts.--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 50 per cent of the current market value of each such security."

"SUPPLEMENT TO REGULATION U
"Issued by the Board of Governors of the Federal Reserve System
"Effective March 30, 1949

"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 50 per cent of its current market value, as determined by any reasonable method."

The following statement for release to the press for publication in the morning papers of Tuesday, March 29, 1949, was also approved unanimously with the understanding that the release and the amended supplements would be wired to the Federal Reserve Banks with the request that the amendments be printed and distributed to interested parties:

"The Board of Governors of the Federal Reserve System, effective Wednesday, March 30, 1949, amended its Regulation T 'Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges' and its Regulation U 'Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange' so as to reduce the margin requirements for purchasing registered securities from 75 per cent to 50 per cent. These requirements are applicable both to purchases of securities and to short sales. The Board's action was taken under its statutory responsibilities and in the light of the general credit situation."

Unanimous approval was also given to the following statement for inclusion in the Federal Register.

"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 262.2(e) of the Board's Rules of Procedure [Part 262]"

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

Following a further informal discussion of assignments of subjects to members of the Board for primary consideration, Mr. Clayton referred to a memorandum dated March 25, 1949 from Mr. Cherry, Assistant Counsel, reading as follows:

"The Home Loan Bank Board is proposing amendments to the regulations of the Federal Savings and Loan System. These amendments appear in the Federal Register for March 11, 1949, under a notice of proposed rule making which provides a period of 30 days within which interested persons may make comments or suggestions.

"These regulations for the first time use the terms 'Federal Savings Association' with reference to a Federal Savings and Loan Association and 'Savings account' with reference to a share account. The regulations heretofore had used the terms 'Federal Association' and 'share account'. Apparently the change in terminology is designed to convey the idea that these institutions do a savings deposit business similar to that of banks.

"It is understood that the American Bankers Association intends to protest the use of such terms through the filing of a brief with the Home Loan Bank Board. The American Bankers Association may also furnish copies of such brief to the members of the two Banking and Currency Committees in Congress.

"It is understood that the Comptroller of the Currency and the Federal Deposit Insurance Corporation may not make any protest, on the theory that

"one Federal agency should not interfere with another Federal agency in a matter of this kind.

"This matter is brought to the Board's attention for its information and such action, if any, as it deems advisable."

It was the view of the members of the Board that the Board should enter an objection to the use of the terms referred to in Mr. Cherry's memorandum and it was understood that Mr. Clayton would have such informal discussions as appeared to him to be desirable with representatives of the American Bankers Association, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Chairman of the executive committee of the National Association of State Bank Supervisors, after which he would submit a recommendation to the Board as to the form of the action to be taken.

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 March 25, 1949, were approved unanimously.

Memorandum dated March 25, 1949, 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, John H. Thomason, Jr. be appointed as an Assistant Federal Reserve Examiner, with basic salary at the rate of $2,974.80 per

annum, and with official headquarters at Washington, D. C.

By unanimous vote, John H. Thomason, Jr. 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 has designated him as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., with basic salary at the rate of $2,974.80 per annum, effective as of the date upon which he enters upon the performance of his duties.

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

"In accordance with the request contained in your letter of March 21, 1949, the Board approves the appointment of William Gwyther Granger as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us as to the date the appointment is made effective and as to the salary rate."

Approved unanimously.

Letter to the board of directors of "The State Savings Bank of Flat Rock", Flat Rock, Michigan, stating that, subject to conditions of membership numbered 1 and 2 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 Chicago.

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to Mr. Sheehan, Chief Examiner at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of March 21, 1949, submitting for the consideration of the Board of Governors a proposal of The County Trust Company, White Plains, New York, to move its branch office now located at Station Plaza, Hartsdale, New York, to a new location at 234 East Hartsdale Avenue, Hartsdale, New York.

"It is understood that approval of the State banking authorities has been requested and is to be received prior to effecting the proposed change.

"On the basis of the facts submitted, the Board concurs in your opinion that the proposed change of location does not constitute the establishment of a new branch within the meaning of Section 9 of the Federal Reserve Act and, therefore, the Board's approval is not required."

Approved unanimously.

Letter to Mr. John F. Murphy, Vice President of The First National Bank of Scranton, Scranton, Pennsylvania, reading as follows:

"This refers to your letter of March 11 addressed to Chairman McCabe, on the subject of security margin requirements which was received during the Chairman's absence from the city.

"You call attention to the fact that loans by banks for the purpose of purchasing unlisted stocks are not subject to such regulation, while margins on listed

"securities are limited to 75 per cent, and express the view that the lowering of margin requirements to 50 per cent would eliminate discrimination and afford sufficient protection to all concerned. You also point out that your studies show much larger losses on loans secured by unlisted securities than on loans secured by listed securities.

"It seems to us that, if protection of lenders and borrowers were the major purpose to be considered, the point that loans on unlisted securities involve relatively large losses would be an argument for bringing loans to purchase unlisted securities under the regulation, rather than for lowering margin requirements on listed securities. However, the Securities Exchange Act of 1934, which authorizes these regulations, does not give the Board authority to control bank loans to finance the purchase of unlisted (unregistered) securities. Also, it is not the purpose of these regulations to protect borrowers or lenders, though they may have incidental effects in improving the soundness of some individual credits.

"The major purpose of the security loan regulations is to prevent the excessive use of credit for the purchase or carrying of securities, with due regard to the general economic situation. On that score, the freedom of the securities markets from excessive credit inflation is a gratifying element of strength in the general economic situation at this time.

"The Board is constantly studying the many factors that must be considered in setting margin requirements, and you may be sure that your point of view will be given careful consideration. We appreciate your interest in writing us and giving us the benefit of your views."

Approved unanimously.

Letter to the Honorable Tom Connally, United States Senate, reading as follows:

"The enclosed letter, dated March 3, from Mr. J. B. Caldwell of the Caldwell Motor Company, Paris, Texas, was received with your memorandum of March 19 addressed to Chairman McCabe.

"Mr. Caldwell urges that Regulation W be amended to permit instalment credits on used cars in a maximum amount of two-thirds of the sale or cash price. At present the regulation limits the maximum credit on used automobiles to two-thirds of the estimated average retail value as stated in designated appraisal guides or two-thirds of the cash price, whichever is lower.

"The regulation was designed to influence the rate of expansion of instalment credit by the use of two major provisions, one a minimum down-payment requirement and the other a maximum maturity limitation. In the case of automobiles the regulation permits any 'trade-in' allowance to be used as a part of the required down payment. For all other consumers' durable goods subject to the regulation the down payment must be computed after deduction of any 'trade-in' allowance, and such allowance cannot be used as a part of the down payment.

"The limitation of the maximum credit value on used automobiles, as described above, is necessary to support the down-payment requirement. While we do not mean to imply that such a practice would be generally followed, in the absence of the restriction it would be possible for an inflated cash price and an inflated 'trade-in' allowance to nullify the down-payment requirement.

"Since the appraisal guides have long been used in the used car business and since their value estimates are based on average prevailing prices, they have served well in the capacity used for Regulation W purposes, both from the standpoint of those engaged in selling and financing the sale of used cars and from the standpoint of those administering the regulation."

Approved unanimously.

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

"At the recent regional conferences on Regulation W procedures there was discussed the establishment, in the Board's records, of an up-to-date summary of working arrangements with State supervisory authorities who are cooperating in the enforcement of the regulation. At each discussion, representatives of the Reserve Banks

"received copies of the proposed report, and indicated in general that preparation of the report would not present any important difficulties.

"Accordingly, there are enclosed sufficient copies of the form to complete one for each State, any portion of which is in your district. In the case of split States where reports from cooperating agencies for the entire State are to be made to one Reserve Bank, please so indicate by appropriate footnote. It would be appreciated if the reports reflected arrangements as they exist on April 1, 1949. Subsequent changes should be reported as they occur by the submission of a new form for the State involved. The report forms may be sent directly to the Regulation W Section, Division of Bank Operations."

Approved unanimously.

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

"This refers to your letter of March 17, 1949, enclosing a copy of a letter dated March 4, 1949, from Mr. Paul L. Fletcher, Secretary, The City Loan and Savings Company, Lima, Ohio. Mr. Fletcher's question is whether Regulation W, and particularly section 5(c) thereof, permits a Registrant to consider instalment credit arising from the sale of a repossessed listed article as the continuance or ultimate consummation of a bona fide collection effort, and, consequently, not subject to the requirements of the regulation applicable to extensions of instalment credit for the purchase of a listed article.

"The Board agrees with your indication to Mr. Fletcher that his question falls squarely within S-1088, February 9, 1949 (Regulation W Service, No. 531). As S-1088 points out, the 'obligation' referred to in section 5(c) is the obligation of the original obligor, whereas Mr. Fletcher's position would extend section 5(c) to the obligation of a new purchaser or obligor. Under the regulation as presently constituted, such position is not permissible."

Approved unanimously.

Secretary.

Approved:

Chairman.