Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 16, 1951. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Schmidt, Acting Chief, Business Finance and Capital Markets Section, Division of Research and Statistics

Mr. Thomas reported briefly on developments in the money market, particularly on the effects of the increase in member bank reserve requirements which became effective on January 11 and today.

Chairman McCabe referred to the discussion at the meeting on January 11 with respect to the request of the Chairman of the Defense Mobilization Board that he (Chairman McCabe) prepare a memorandum of actions that he felt should be taken in the field of finance and credit to combat inflation. He read a draft of memorandum which had been prepared in accordance with that request and stated it had been written to express his personal views and not necessarily the views of the other members of the Board.

Mr. Vardaman stated he would have to object to the memorandum in its present form as he felt that in addition to fiscal and monetary controls it was necessary to put direct controls into effect as quickly as possible.

Following a discussion of the point raised by Mr. Vardaman, it was understood that when the memorandum was in a form satisfactory to the Chairman, he would send it to Mr. Wilson.

Chairman McCabe then referred to previous discussions of a proposed increase in margin requirements, stating that he had had further discussions with Senator Robertson, Secretary of the Treasury Snyder, the Chairman of the Council of Economic Advisers, and other officials of the Government who he felt would be interested in the move, and that as a result of these discussions he had come to the conclusion that it would be desirable for the Board to increase margin requirements from 50 per cent to 75 per cent, effective tomorrow. He added that in discussing the matter with Mr. Powell, the latter stated that he would favor such an increase and wished to be recorded as favoring its approval, and that in a telephone conversation Mr. Szymczak stated that if present he would vote to approve the increase from 50 to 75 per cent.

Mr. Vardaman stated that the only basis on which he would vote for the increase from 50 to 75 per cent was on the grounds that, as reported by Chairman McCabe at the meeting on January 11, 1951, the

Securities and Exchange Commission had indicated informally that it felt an increase of 25 percentage points in margin requirements should be made at this time. Mr. Vardaman added that he would much prefer to take no action at this time unless the Board was going to increase margin requirements to 100 per cent to place the market on a cash basis.

Mr. Eccles expressed the view that the basic purpose of an increase in margin requirements was to stop the use of credit that might have an inflationary effect, that while the total amount of credit in use in the stock market was not large in relation to all bank credit outstanding it had been increasing steadily for several months, particularly in recent weeks, that an increase in such credit under present conditions could only be construed as an excessive use of credit in the stock market, and that he would vote to approve the increase proposed.

During the discussion, Chairman McCabe called Mr. Sproul, President of the Federal Reserve Bank of New York, on the telephone and after talking with him reported that Mr. Sproul had asked his staff to study the matter and had not had an opportunity to see their report and that he would like to have an opportunity to see the report before expressing a definite opinion on the matter.

> Secretary's note: Later in the afternoon before the announcement was made Mr. Sproul called the Chairman and

stated that he was in agreement with the proposed increase.

Following the discussion, upon motion by Mr. Evans, it was voted unanimously to increase margin requirements from 50 per cent to 75 per cent, effective January 17, 1951, Mr. Vardaman stating that he was voting to approve for the reason previously expressed by him at this meeting.

To carry out the foregoing, unanimous approval was given to the following:

"SUPPLEMENT TO REGULATION T
Issued by the Board of Governors of the Federal Reserve System
Effective January 17, 1951

"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 25 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 75 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 January 17, 1951

"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."

Unanimous approval was also given to the issuance of the following statement with the understanding that it would be released for publication after 6:00 p.m. today, Eastern standard time, and that it would be sent by telegram to all Federal Reserve Banks and Branches this afternoon with a request that it be treated as strictly confidential until 6:00 p.m. Eastern standard time:

"The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements of brokers and banks, by increasing requirements from 50 per cent to 75 per cent, effective January 17, 1951. The increased requirements apply to both purchases and short sales. No other change is made in the regulations."

The following statement for the Federal Register with respect to both Regulations T and U was also approved by unanimous vote:

"The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the 30-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 Paragraph 262.2(e) of the Board's Rules of Procedure (Part 262)."

Messrs. McCabe, Riefler, Thurston, Solomon, and Schmidt withdrew from the meeting at this point.

Before this meeting there had been circulated among the members of the Board a memorandum dated January 9, 1951, from Mr.

Marget, Director of the Division of International Finance, recommending the appointment on a temporary indefinite basis of Edward Ames as an Economist in the Division of International Finance with basic annual salary at the rate of $6,400, to fill a vacancy resulting from the resignation of Gregory Grossman, effective as of the date he assumed his duties. Mr. Vardaman had indicated he wished to discuss the matter at this meeting.

Mr. Evans stated that Mr. Vardaman had questioned the necessity for Mr. Ames' appointment in the light of the action by the Board on December 22, 1950, in approving the budget for 1951 with the understanding that no positions which became vacant would be filled except by submission to the Board for approval on the basis of establishing a new position and that the members of the Board and the staff should carefully scrutinize all proposed expenditures to make sure that they were necessary and thoroughly justifiable. Mr. Evans also said that he had discussed the matter with Mr. Powell whose assignments included the research work of the Board, that Mr. Powell felt it was very desirable to fill the position for which Mr. Ames was recommended, that he (Mr. Evans) had looked into the matter carefully and was satisfied that it was highly desirable to fill the position, and that he recommended the Board approve the appointment.

Mr. Vardaman stated he would be opposed to the employment of any person by the Board unless such appointment was of an emergency nature rather than desirable or advisable, and that he did not feel that the proposed appointment of Mr. Ames was of an emergency nature.

Thereupon, upon motion by Mr. Evans, the appointment of Mr. Ames was approved as recommended, Mr. Vardaman voting "no".

Mr. Young withdrew from the meeting at this point, and Mr. Phelan, Acting Director of the Division of Selective Credit Regulation, and Mr. Hackley, Assistant Counsel, entered the room.

Mr. Phelan stated that following a visit from representatives of certain small business groups during which they advanced the view that there was a need for additional credit facilities to enable small businesses to carry out defense contracts, he had prepared a draft of wire to the Presidents of all Federal Reserve Banks with respect to the possibility of increasing their activities under section 13b of the Federal Reserve Act as a means of helping to meet the financing needs of such small business concerns where they had not established lines of credit with their commercial banks and where a V-loan guarantee if issued would involve a guarantee in excess of 90 per cent, and the net return to the banks would not be sufficiently attractive for them to assume much if any risk in the loan.

In the ensuing discussion, question was raised whether in view of the present inflationary situation it was desirable for Federal Reserve Banks to make direct loans for this purpose and thereby supply reserve funds to the market, and it was understood that action would be deferred and that the matter would be placed on the agenda for consideration at the meeting on Tuesday, January 23, when Chairman McCabe and Mr. Riefler could be present.

Mr. Vardaman then presented a memorandum from Mr. Hackley dated January 16, 1951, with respect to the policy to be followed with respect to termination fees in connection with V-loans. The memorandum stated that in a case now pending with the Department of the Air Force the V-loan agreement between the bank and the borrower provided that if prepayments of the loan were made from borrowings elsewhere the company should pay to the bank a premium of 1/2 of 1 per cent of the amount of such prepayments. The memorandum also stated that during the previous V-loan program the Board, on May 12, 1943, after consulting the guaranteeing agencies, ruled that "no termination fee, special fee, or other fee of a similar character" may be charged a borrower in connection with a guaranteed loan, that under the present program the Board had clear authority under the law and the Executive

Order to fix rates and fees after consultation with the guaranteeing agencies, and that if the Board should again decide to prohibit termination fees, it was recommended that the Board so advise the guaranteeing agencies and ask their views before taking action.

Mr. Vardaman stated that he would recommend that, subject to consultation with the guaranteeing agencies, the Board again prohibit termination fees.

Mr. Vardaman's recommendation was approved unanimously.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 January 15, 1951, were approved unanimously.

Telegram to Mr. Attebery, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

> "Reteldate, Board notes proposed leave of absence with pay for Weldon A. Stein for period January 17 - April 13, inclusive to assist on special assignment with Department of Interior. Will interpose no objection to this action."

Approved unanimously.

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

> "Reurlet January 12. Board approves designation of Rodney Ray Hill as special assistant examiner for Federal Reserve Bank of Kansas City."

Approved unanimously.

Letter to Mr. Wilbur, Federal Reserve Agent of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in Mr. Stone's letter of January 10, 1951, the Board of Governors approves the appointment of Mr. Francis K. Grimm as Federal Reserve Agent's Representative at the Seattle Branch at his present salary, $5,820.00 per annum.

"This approval is given with the understanding that Mr. Grimm will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Seattle Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

"It is noted from Mr. Stone's letter that upon approval of Mr. Grimm's appointment the usual oath of office will be forwarded to the Board of Governors with advice of the effective date of appointment."

Approved unanimously.

Letter to Mr. Wilbur, Federal Reserve Agent of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in Mr. Stone's letter of January 10, 1951, the Board of Governors approves the appointment of Mr. Ernest V. Risberg as Federal Reserve Agent's Representative at the Portland Branch at his present salary, $5,520.00 per annum.

"This approval is given with the understanding that Mr. Risberg will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Portland Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

"It is noted from Mr. Stone's letter that upon approval of Mr. Risberg's appointment the usual oath of office will be forwarded to the Board of Governors with advice of the effective date of appointment."

Approved unanimously.

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

"After consultation with the guaranteeing agencies, the Board has prescribed the following amendment to the standard form of guarantee agreement of September 27, 1950:

Paragraph (K) of section 1 of the standard form of guarantee agreement of September 27, 1950, is amended to read as follows:

'(K) A "defense production contract" shall mean any contract made or order accepted by the Borrower for the sale or furnishing by the Borrower of materials, equipment, supplies, facilities, or services or for the processing or treatment by the Borrower of materials, which (1) constitutes (a) a prime contract with any guaranteeing agency designated by the Defense Production Act of 1950 or by Executive Order issued thereunder or with the Atomic Energy Commission or any other

"'Government department or agency directly or indirectly and substantially concerned with the national defense as the term "national defense" is defined in section 702(d) of the Defense Production Act of 1950, or (b) a contract made or order accepted by the Borrower to aid directly or indirectly in the performance of any such prime contract, and (2) is related to the procurement of materials or the performance of services for the national defense.'

"This amendment is intended merely to make the definition of the term 'defense production contract' conform to the definition of the term 'national defense' contained in section 702(d) of the Defense Production Act of 1950. As defined in the Act, the term 'national defense' means 'the operations and activities of the armed forces, the Atomic Energy Commission, or any other Government department or agency directly or indirectly and substantially concerned with the national defense, or operations or activities in connection with the Mutual Defense Assistance Act of 1949, as amended'.

"The term 'defense production contract' as it was defined in the standard form of guarantee agreement prescribed effective September 27, 1950, was limited to prime contracts with the guaranteeing agencies or subcontracts thereunder which are related to the procurement of materials or the performance of services for the national defense; and in that form it was not sufficiently broad to include contracts with Atomic Energy Commission or with other Government departments and agencies 'directly or indirectly and substantially concerned with the national defense'.

"The standard form of guarantee agreement will shortly be reprinted in order to incorporate this amendment as well as the amendment prescribed by the Board under date of December 4, 1950 (V-8). In the meantime, the amendment to section 1(K) should be incorporated as a supplemental section or otherwise in guarantee agreements hereafter executed by the Federal Reserve Banks as fiscal agents on behalf of the guaranteeing agencies. The amendment may also "be incorporated in guarantee agreements heretofore executed, if desired by the financing institution, upon authorization by the guaranteeing agency in each particular case.

"For the purposes of the standard form of authorization and definition of the code word 'AJOTE' as defined in the Board's letter of November 13, 1950 (V-3), reference to the standard form of guarantee agreement of September 27, 1950, will be deemed to include authorization for the inclusion of this amendment as well as the amendment prescribed by the Board's letter of December 4, 1950, and, after reprinted copies of the form of guarantee agreement, incorporating the two amendments, are available reference to the standard form of guarantee agreement of September 27, 1950, will be deemed to include the form of guarantee agreement as so reprinted."

Approved unanimously.

Memorandum dated January 16, 1951, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the January issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following:

Defense Mobilization and Production
  Executive Orders Nos. 10193 and 10200
Reserves of Member Banks
  Revision of Regulation D Supplement
Deposits in Member Banks
  Transfers of Time Deposits
  Presentation of Savings Accounts Passbooks
Loan Guarantees for Defense Production
  Amendment to Form of Guarantee Agreement
Consumer Credit
  Rental Transactions
  "Over-allowances" on Trade-ins
  Disaster Credit Exemptions
  Exclusion of Self-Labor
Residential Real Estate Credit
  Amended Regulation X
  Loan Values Computed on Family Unit Basis

Commodity Credit Corporation Loans

Approved unanimously.

Secretary.