

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 6, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Verdaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Boothe, Administrator, Office of Defense Loans
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Noyes, Assistant Director, Division of Research and Statistics
Mr. Connell, Technical Assistant, Office of Defense Loans

Prior to this meeting there had been sent to each member of the Board a memorandum dated February 5, 1953, from the Secretary of the Board transmitting a memorandum of the meeting held on February 3 with representatives of the guaranteeing agencies under the V-loan program for the purpose of obtaining the views of those agencies on the proposal that the maximum permissible interest rate on guaranteed loans be increased from 5 to 5-1/2 per cent. The meeting was called by the Board

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on January 28, 1953, following consideration of a letter dated January 21, 1953, from Mr. Kenton R. Cravens, Chairman of the Subcommittee on Financing of Defense Contracts of the American Bankers Association, making a formal appeal for an increase in the maximum rate. Mr. Cravens appeared at the meeting on February 3, along with other representatives of the American Bankers Association, to present the case for the increase.

Governor Vardaman summarized the February 3 meeting, at which Messrs. Szymczak, Mills, and Robertson also were present, saying that he gained the impression that Mr. Cravens and his associates were quite sincere in their efforts to serve the banking fraternity by getting the maximum rate more in line with what they considered to be prevailing interest rate levels, but that in his opinion they did not make a strong presentation since they offered no evidence to show that the V-loan program was being hampered in any way by the prevailing rate. He said that of the representatives of the guaranteeing agencies who spoke at the meeting the only one who definitely favored an increase was a representative of the Department of the Army, who did not elaborate upon his position or support it with any evidence that his Department was experiencing difficulty with the present rate.

Governor Vardaman noted that Mr. Cravens made the statement at the meeting that Mr. Craig R. Sheaffer, Assistant Secretary of Commerce-designate, who was unable to be present, had expressed himself to the

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effect that an increase to 5-1/2 per cent would conform with present interest rate trends and the Department of Commerce would have no objection to such an increase. He said that he would inquire of Mr. Sheaffer whether he wished to have that statement stand in the record of the meeting. Governor Vardaman also noted that in his letter to the Board of January 21, 1953, Mr. Cravens stated that representatives of the Departments of Defense, Army, Navy, and Air Force with whom he conferred informally early last December expressed the opinion that the maximum rate should be increased to 5-1/2 per cent. However, Governor Vardaman said, in a letter to Chairman Martin dated February 2, which was read at the February 3 meeting after the representatives of the American Bankers Association had withdrawn from the room, Assistant Secretary of Defense W. J. McNeil stated that none of the persons with whom Mr. Cravens conferred expressed or agreed to the opinion that the maximum interest rate should be increased, it being their recollection that they stated to Mr. Cravens only that they knew of no reason to object to such a proposal, when made and reasonably justified, and that the question would be one for decision by the Board of Governors.

There ensued a full discussion of the reasons for and against the proposed increase, with all of the members of the Board and the interested members of the staff participating.

The following points were cited during the discussion as tending to support the increase:

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1. An increase would be in keeping with recent changes in the pattern of interest rates. It would recognize the normally greater credit risk involved in V-loan financing and that V-loans require more servicing than regular bank loans. The higher rate would be conducive to better servicing of smaller V-loans.

2. Inasmuch as interest rates had advanced generally, the maximum rate established at the inception of the V-loan program in September 1950 should be increased now unless the rate established in 1950 was too high at that time.

3. According to Mr. Cravens, the smaller V-loans made at the maximum rate of 5 per cent would command, if made without guarantee, an average rate of 6 per cent; if so, some narrowing of the differential might be justified.

4. In the spring of 1952, when the American Bankers Association previously requested an increase in the rate, inquiries of the Federal Reserve Banks by the Board revealed that a large majority of the Banks felt that the rate should be adjusted to 5-1/2 per cent, with several feeling that in addition the guarantee fees should be reduced; recently, representatives of the New York and Philadelphia Reserve Banks indicated informally that they thought the rate increase would be appropriate to provide a more adequate return to the financing institutions.

The following points were cited against an increase in the maximum rate:

1. No convincing evidence had been presented that an increase in the rate was necessary to maintain the V-loan program, or, to put it another way, to show that the present maximum had in any way militated against the success of the program or dissuaded banks from making V-loans.

2. Action by the Board to increase the rate might have undesirable psychological effects; for example, it might be said that it was against the interests of small business.

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3. With indications that the defense procurement program has passed its peak, which would point toward a lesser volume of V-loan applications, the principal effect of an increase in the maximum rate might be that the new rate would be applied to renewals of outstanding loans, whereas the greatest justification for a higher rate would appear to be to cover costs of putting new loans on the lenders' books.

4. The difference in yield to a lender at 5 and 5-1/2 per cent on a loan carrying a high percentage of guarantee would be quite small whereas the principles involved in a change in rate are of some significance.

5. So far as Government programs for the insurance or guarantee of loans are concerned, the great bulk are insured or guaranteed by the Veterans' Administration, the Federal Housing Administration, and the farm credit agencies; therefore, it would be well for the Board to consider what repercussions any action on its part to increase the maximum rate on V-loans would have insofar as those larger programs are concerned. Regardless of the validity of the argument, an increase in the V-loan rate almost certainly would be used by proponents of an increase in rates on Government-insured mortgage loans as a reason for a change and a measure of what the Board considered an appropriate adjustment in the maximum rate between 1950 and 1953.

6. Rather than to increase the maximum rate, it might be better to allow a financing institution making a small V-loan, on which the total interest income would not be large, some allowance for putting the loan on the books and servicing it, thus making it more attractive for lenders to assist smaller businesses under the V-loan program.

7. It appeared to be clearly the consensus of the guaranteeing agencies that no case had been made for an increase.

8. If the rate were not increased, that might encourage lenders to increase their yield on V-loans through asking a lower percentage of guarantee.

During the discussion, Governor Robertson inquired whether it would be advisable to eliminate the maximum rate entirely, leaving the

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rate to be settled in each case on a negotiated basis. It was stated that the presence of a ceiling serves to prevent a lender from exacting a higher rate than justified where an applicant is having difficulty in locating a source of credit; that most applicants, although they might go to a Federal Reserve Bank, probably would accept the decision of their commercial bank as to rate; and that the maximum rate tended particularly to protect the small borrower. It was also stated that elimination of the maximum rate on V-loans might cause confusion in arguing either side of the case concerning the proper maximum rate applicable to other Government insured or guaranteed loans, where a maximum rate sometimes is provided for by law; that it might be argued that where the Government guarantees part of a loan it is appropriate to set some rate limitation as a reflection of the value of the Government guarantee; that where the Government is a party to a loan transaction it should set some rate limitation to keep the borrower from being overcharged; that it was quite clearly the intent of the Congress in setting up the current V-loan program that some maximum rate should be fixed, as was done in the previous V-loan program; and that elimination of the maximum rate might result in each guaranteeing agency setting up its own maximum rate.

There was also a discussion of the probable effect of a reduction of the maximum interest rate to 4-1/2 per cent. It was suggested that on the basis of V-loans made to date under the current program, this might

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have eliminated approximately one-half of the number of borrowers, it being evident that the smaller borrowers had been financed predominantly at 5 per cent. It was also brought out that the Board, in approaching its functions under the V-loan program, had assumed a need for the program and it would not seem appropriate, therefore, for the Board to attempt to influence the degree of activity of the program through exercising its authority to fix rates and fees but rather for it to look to the guaranteeing agencies to scale down their contracts and guarantees if they felt that the program was larger than it ought to be. It was also stated that a decrease to 4-1/2 per cent in the maximum rate probably would encounter opposition from the Armed Services as bringing that rate too close to the 4 per cent rate on advance payments.

It was the consensus of the Board that no change in the maximum rate of interest should be made at this time and that a letter should be sent to Mr. Cravens advising him to that effect.

Secretary's Note: Pursuant to the above action, a letter reading as follows was sent by Chairman Martin to Mr. Cravens on February 9, 1953:

"Reference is made to your letter of January 21, 1953, requesting the Board to consider increasing the maximum permissible rate of interest on V-loans from 5 per cent to 5-1/2 per cent. After consultation with the guaranteeing agencies and consideration of the facts brought out in the conference held in the Board's building Tuesday, February 3, it is the consensus of the Board that no change be made in the maximum V-loan interest rate at this time.

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"The Board appreciates the interest of your committee and I can assure you that the committee should feel free to bring to the Board's attention at any time problems arising in connection with the V-loan program."

At this point Messrs. Boothe, Hackley, Noyes, and Connell withdrew from the meeting while Messrs. Thomas, Economic Adviser to the Board; Schmidt, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics; and Shay, Assistant Counsel, entered the room.

Prior to this meeting there had been sent to the members of the Board copies of the following staff papers having to do with 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:

Regulation of Stock Market Credit, dated January 8, 1953.

Bank Financing of Investment Trust Shares, dated January 9, 1953.

Requests to Broaden "Subscription Rights" Provisions of Regulations T and U, dated January 9, 1953.

Board Actions on Margin Requirements - A Review of Considerations, dated January 30, 1953.

There had also been sent to the members of the Board copies of a memorandum from Mr. Shay dated February 4, 1953, summarizing the replies of the Federal Reserve Banks to the Board's letter of January 14, 1953, requesting their views on proposals contained in the second and third of the above mentioned staff memoranda.

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Governor Szymczak commented briefly on the several memoranda and on suggestions received by the Board from bankers, brokers and dealers, and the general public for various technical changes in Regulations T and U. He suggested, in view of the limited time available, that the discussion at this meeting be confined to the question whether Regulation U should be amended so as to apply specifically to credit for purchasing shares of open-end investment companies, and he reviewed the facts set forth in the staff memorandum covering the matter.

Mr. Vest expressed agreement with the opinion given in the memorandum that the Board had authority, if it wished to exercise it, to apply Regulation U to credit for purchasing open-end investment trust shares on the theory that a loan for purchasing such shares, which are rarely registered on a securities exchange, is actually a loan for the purpose of purchasing or carrying the underlying registered stocks in the company's portfolio and that the Board might look to the substance, rather than the form, of the transaction. He pointed out, however, that in the October 1952 Federal Reserve Bulletin there was published an interpretation that the prohibitions against a broker subject to Regulation T "arranging" for any extension or maintenance of credit on unregistered securities applied to credit on the collateral of unregistered shares of an open-end investment company, and said that there might be some charges of inconsistency should the Board amend Regulation U as suggested since it might be said

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that in the one case the Board looked at the form of the transaction and in the other case at the substance. Mr. Vest did not consider this a serious matter because the prohibition in Regulation T against brokers "arranging" certain credits is based essentially on the collateral while Regulation U is chiefly in terms of loans for the purpose of purchasing or carrying registered stocks.

Mr. Solomon concurred in the view of Mr. Vest that no serious embarrassment would be caused by the October 1952 interpretation.

Following a discussion, Governor Szymczak suggested that a draft of amendment to Regulation U along the lines mentioned be published in the Federal Register with a view to obtaining comments from interested parties.

Governor Mills expressed the opinion that it would be preferable to defer such publication until such time as the Board had considered the other matters relating to Regulations T and U covered in the above mentioned staff memoranda.

It was Governor Robertson's view that the amendment to Regulation U should be approved by the Board and that, pending its publication and final adoption, the Board should construe Regulation U as being applicable to the financing of open-end investment trust shares.

No conclusions were reached, and it was understood that the matter would be discussed further at another meeting of the Board.

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There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on February 2, by the Federal Reserve Bank of San Francisco on February 3, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Minneapolis, and Dallas on February 5, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 5, 1953, were approved unanimously.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of January 22, 1953, advising of the various actions taken by the Board of Directors with respect to the appointments of the officers of the Federal Reserve Bank of Minneapolis and the Helena Branch for the year 1953, and the fixing of their salaries.

"As requested, the Board of Governors approves the payment of salaries to the following officers for the period January 22, 1953, through May 31, 1953, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter.

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<u>"Name and Title</u>	<u>Salary</u>
J. Marvin Peterson, Vice President and Director of Research	\$13,000
A. W. Johnson, Assistant Vice President	9,000
Christian Ries, Assistant Vice President	8,500
John Gillette, Assistant Cashier	7,500
M. B. Holmgren, Assistant Cashier	7,500

"Approval by the Board of Governors of the salaries fixed by the Board of Directors for the remaining officers has been deferred pending formulation of an officer salary plan referred to in our letter of February 2, 1953."

Approved unanimously.

Letter to Mr. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors approves the reappointments of Messrs. E. S. Dulin, Wakefield Baker, Edmund Hayes, Walter A. Starr, and J. A. Folger as members of the Industrial Advisory Committee for the Twelfth Federal Reserve District to serve for terms of one year each, beginning March 1, 1953, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of San Francisco, as reported in your letter of January 28, 1953.

"It is noted from your letter that Mr. Walter A. Starr was designated Chairman of the Committee and Mr. Wakefield Baker, Vice Chairman."

Approved unanimously.

Letter to the Board of Directors, The Fifth Third Union Trust Company, Cincinnati, Ohio, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment and operation of a branch at 2370 Glendale-Milford Road, Evendale, Hamilton County, Ohio, by

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"The Fifth Third Union Trust Company, provided the branch is established within five months from January 22, 1953."

Approved unanimously, for transmittal through the Federal Reserve Bank of Cleveland.

Letter to the Board of Directors, The Lynchburg Trust and Savings Bank, Lynchburg, Virginia, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves the establishment and operation of a branch at 2482 Rivermont Avenue, within the corporate limits of Lynchburg, Virginia, by The Lynchburg Trust and Savings Bank, Lynchburg, Virginia, provided such branch is established within twelve months from the date of this letter and that prior formal approval of the appropriate State authorities is obtained."

Approved unanimously, for transmittal through the Federal Reserve Bank of Richmond.

Letter to the Board of Directors of the West Liberty State Bank, West Liberty, Iowa, stating that, subject to conditions of membership numbered 1 and 2 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 Chicago.

Approved unanimously, for transmittal through the Federal Reserve Bank of Chicago, with a

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letter to Mr. Young, President of the Reserve Bank, containing the following paragraph:

"On the date of the examination the bank was carrying a balance with the Iowa State Bank and Trust Co., Iowa City, Iowa, a nonmember bank, which is in excess of the limit prescribed by Section 19 of the Federal Reserve Act, and it is assumed that such balance will be reduced to a conforming amount."

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C. (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency), reading as follows:

"Reference is made to your letter of May 16, 1952, to the Federal Reserve Bank of Dallas, Texas, requesting a recommendation on the application to organize a national bank at Dallas, Texas, under the title of Industrial National Bank of Dallas, and to your letter to Mr. Sloan, dated January 28, 1953, with respect to the views and recommendation of the Board of Governors on the proposal.

"We have received a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas setting forth information with respect to factors usually considered in connection with such applications. While it appears that the proposed bank might provide more convenient facilities for a number of people and businesses it is doubtful that there exists a definite need for additional banking facilities in the area since there are a number of banks located within a radius of two and one-half miles of the proposed location. The proximity of other banks now serving the area would also have an unfavorable effect on the future earnings prospects of the institution. In view of these unfavorable factors it is believed that the application should be disapproved at this time. However, if the application is approved it would seem desirable to require the applicants to provide management acceptable to your office since it appears that definite arrangements for the services of an executive officer have not been made.

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"The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire."

Approved unanimously, with
a copy to the Federal Reserve
Bank of Dallas.

Letter to the Federal Deposit Insurance Corporation, Washington,
D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that The Bank of Tokyo of California, San Francisco, California, became a member of the Federal Reserve System on February 2, 1953, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, Washington,
D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of

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"the Federal Reserve System hereby certifies that The Sumitomo Bank (California), San Francisco, California, became a member of the Federal Reserve System on February 2, 1953, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act."

Approved unanimously.

Letter to Mr. Young, President, Federal Reserve Bank of Chicago, reading as follows:

"Your letter of January 21 regarding the establishment by the Federal Reserve Bank of Chicago of an office in Des Moines for the purpose of facilitating the collection of checks has been read with interest. The Board is in sympathy with the general idea of trying such an experiment if further consideration would indicate that the proposal holds promise of being an economical and efficient method of facilitating the collection of checks and reducing the concentration and resultant bottlenecks at the Head Office.

"In response to your request for any comments we may have to offer, attached is a list of a number of points which would seem to merit consideration before reaching a decision as to the desirability of establishing an office at Des Moines. Undoubtedly, you have these and other points in mind.

"The Board would like to hear further from you about

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"this matter as plans develop and before any commitments are made."

Approved unanimously.

Letter to Mr. Leach, Chairman of the Conference of Presidents of the Federal Reserve Banks, prepared pursuant to action taken at the meeting of the Board on January 29, 1953, and reading as follows:

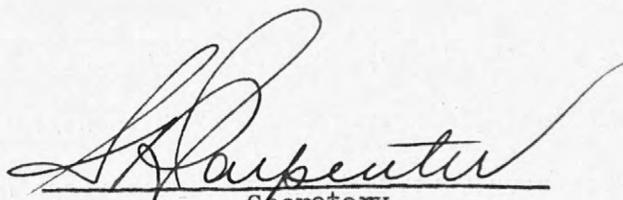
"You will recall that the Presidents' Conference of September 23, 1952 discussed with the Board the advisability of supplementing the retirement allowances payable to members who retired before qualifying for Social Security benefits.

"The Board approves the payment of a supplemental allowance to those members of the Retirement System who retired before qualifying for Social Security benefits as originally proposed, except that no allowance be increased above \$3600, and the adjustment for those with less than ten years' service be \$30 for each year of service, rather than a blanket allowance of \$300.

"The Board approves supplemental allowances to members on special service retirement under the same formula as that used for those on regular retirement with the additional limitations originally proposed.

"The Board approves in principle the approach which the Retirement Committee has taken to the problem of supplementing disability allowances, and requests the Presidents' Conference to submit a recommendation as to the exact formula to be used."

Approved unanimously.


Secretary