Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 20, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Pursuant to the understanding at the meeting yesterday, there was a further discussion of the desirability of holding a meeting of the Conference of Chairmen of the Federal Reserve Banks this spring. The matter was discussed from the point of view of whether it would be helpful to have a meeting of the Chairmen following the meeting of the Conference of Presidents of the Federal Reserve Banks, to be held next week, for the purpose of considering with the Chairmen the objectives and operation of the plan approved by the Board on January 28, 1953, for administration of Reserve Bank officers' salaries, it being presumed that the salary plan would be taken up by the Presidents with the Board at the time of their meeting.

Chairman Martin stated that generally speaking he felt that it was better not to hold meetings of the Chairmen's Conference unless there was a real reason for doing so, and that he gathered from Mr.

McCormick, Acting Chairman of the Conference, and Mr. Hodgkinson, the other member of the executive committee of the Conference, that they would prefer not to hold a meeting this spring. He suggested, therefore, that the matter be deferred for further consideration at the meeting on March 9, following the meeting of the Presidents' Conference.

This suggestion was approved unanimously.

Governor Robertson suggested that the Board institute a practice of inviting all newly-appointed Class C directors of the Federal Reserve Banks to Washington each year for a general discussion so that they might have a better concept of their duties and responsibilities as directors, become acquainted with the members of the Board, have the benefit of a presentation of the economic situation by the Board's research staff, and learn from the division heads the nature of the work carried on by the respective divisions.

The other members of the Board indicated that they favored Governor Robertson's proposal and further discussion was in terms of whether Class A and B and Reserve Bank branch directors should be included and what time of year would be most appropriate for such a meeting.

Chairman Martin then suggested that this matter also be placed on the agenda for further consideration at the meeting on March 9 and this suggestion was approved unanimously.

Governor Mills reviewed briefly plans being made for the seminar to be held this spring for a group of leading economists, pursuant to the understanding at the meeting on February 17, 1953. He stated that consideration was being given to what group of economists should be invited to participate and what topics might be placed on the agenda for discussion. Suggestions for topics, he indicated, included discount rate policy and some phases of the report on the Government securities market prepared by the ad hoc subcommittee of the Federal Open Market Committee, although there was some question whether the first item by itself would provide a broad enough discussion and whether the second would be appropriate for discussion at the time the seminar was held.

There followed a continuation of the discussion which commenced at the meeting yesterday concerning the lighting facilities in the Federal Reserve building. Members of the Board had inspected the sample fixtures installed in Rooms 1240 and 1242, and it was the unanimous opinion that the Miller fixture, while less expensive, provided as good lighting and appeared to be more desirable in several respects, particularly since it would be easier to maintain.

Thereupon, the Board, by unanimous vote, approved the installation of the Miller fixtures and authorized the Division of Administrative Services, in consultation with Governor Evans, to negotiate the necessary contract or contracts for the installation, with the understanding that, if it should be determined that the actual installation by outside contractors rather than by the Board's staff was desirable, that would meet with the approval of the Board.

There was presented a draft of letter for the signature of the Chairman to the Honorable John Foster Dulles, Secretary of State, reading as follows:

"This is in reply to your letter of February 17 regarding the need for cutting down the burden of economic reporting of the Foreign Service of the United States. I want to assure you of our wholehearted assistance in this matter, and the Board is instructing its staff to cooperate fully--as I am sure they have in the past--in helping your Department to work out the desired economies while maintaining as far as possible the effectiveness of the reporting service.

"As indicated in your letter, the requirements listed in the 'Comprehensive Economic Reporting Programs' include a number of items in which the Federal Reserve staff, along with other agencies, has expressed an interest. I have been informed by the Board's Division of International Finance, however, that none of the items included in the Reporting Programs have been included solely because of Federal Reserve interest. As we understand it, the Department of State, in compiling the present programs, ascertained the requirements of each Government agency (including Federal Reserve) and then selected those items where the aggregate usefulness seemed enough to justify their inclusion. Our staff will stand ready to help your Department in identifying items of relatively less usefulness which might be eliminated under the new standards.

"In addition to receiving information from these 'Programs', the Federal Reserve has in a few cases requested spot reports. The Board is instructing its staff expecially to avoid making such requests in the future unless there is a very real need for the information desired.

"If there is any way in which the Board can be of further help to you in this endeavor, I would appreciate hearing again from you. It is our desire to cooperate with the Department of State on this matter in every way possible."

Approved unanimously.

Chairman Martin presented a report on yesterday's meeting of the Defense Mobilization Board, stating that because of time devoted to discussion of other matters, there was little discussion of selective credit controls although there was distributed a paper prepared by Mr. Charles H. Kendall, General Counsel of the Office of Defense Mobilization, which approached the problem of stand-by controls on the basis that the granting of stand-by authority tended to shift the responsibility from the Congress to the executive branch of the Government and that there was need for the fixing of a clear-cut policy by the Congress. Chairman Martin said that he had no opportunity to comment on consumer and real estate credit controls. He also said that if the Congress should request the Board's views on priorities and allocations, which were the principal subjects of discussion at yesterday's meeting, he felt that the Board should respond that it was not in a position to furnish an opinion on those matters.

There were then presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, St. Louis, and Dallas stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on February 16, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on February 19, and by the Federal Reserve Bank of Dallas on February 20, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then recessed and reconvened in executive session at 5:00 p.m. with the following members of the Board present:

Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Mills
Mr. Robertson

Subsequently, the Chairman informed the Secretary that during the executive session the Board discussed whether action should be taken to reduce the 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. The matter was considered in the light of the reasons advanced during earlier informal discussions for a reduction in margin requirements and it was the unanimous view of the members present that since the 75 per cent requirement was put into effect in January 1951 as a preventive measure in the face of strong inflationary pressures, and since a requirement of 50 per cent would continue to be restrictive and would be consistent with the System's over-all credit and monetary policy of moderate restraint under current conditions, the lower requirement would be adequate to carry out the purpose of the statute of preventing the excessive use of credit for the purchase or carrying of securities.

Accordingly, unanimous approval was given to a motion that margin requirements on both long and short sales be reduced from 75 per cent to 50 per cent, effective immediately.

To carry out the foregoing motion, the following amendments to the supplements to Regulations T and U were approved unanimously:

Supplement to Regulation T
Issued by The Board of Governors of the Federal Reserve System
Effective February 20, 1953

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 February 20, 1953

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 the press for publication in the morning papers of February 21, 1953, was also approved unanimously with the understanding that the release and 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 today amended Regulations T and U, relating respectively to margin requirements of brokers and banks, by reducing margin requirements from 75 per cent to 50 per cent, effective immediately. The reduced requirements apply to both purchases and short sales. No other change was made in the Regulations.

Unanimous approval was also given to the following statements for inclusion in the Federal Register:

Regarding amendment to the Supplement to Regulation T:

2. (a) 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 in order to carry out the purposes of the Act.

(b) 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 § 262.2(e) of the Board's Rules of Procedure (Part 262 of this chapter).

Regarding amendment to the Supplement to Regulation U:

2. (a) This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to change loan values in order to carry out the purposes of the Act.

(b) 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 § 262.2(e) of the Board's Rules of Procedure (Part 262 of this chapter).

> Secretary's Note: Governor Vardaman subsequently advised the Secretary's Office that he was absent on official business the afternoon of February 20 but that he wished the record to show that he concurred in the action of the Board to reduce the margin requirements from 75 per cent to 50 per cent.

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 19, 1953, were approved unanimously.

Letter to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of February 16, 1953, the Board approves the appointments of John E. Mallory, Jr. and John F. Yancey as assistant examiners for the Federal Reserve Bank of Richmond, effective March 1, 1953."

Approved unanimously.

Letter to Mr. Strathy, Secretary, Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves the reappointments of Messrs. J. G. Holtzclaw, Overton D. Dennis, Ross Puette, Walker D. Stuart, and John L. Whitehurst, as members of the Industrial Advisory Committee for the Fifth 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 Richmond, as reported in your letter of February 12, 1953."

Approved unanimously.

Letter to Mr. Weigel, Secretary, Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the appointments of Messrs. Jacob VanDyke, Harold Puls, James Louis Crawford, Marvin W. Swaim, and G. A. Heuser as members of the Industrial Advisory Committee for the Eighth 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 St. Louis as reported in your letter of February 13, 1953.

"It is noted from your letter that, after the Committee has elected its officers for the ensuing year, the Board of Governors will be advised."

Approved unanimously.

Letter to Mr. Gilbert, President, Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors approves the reappointments of Messrs. Charles R. Moore, Lawrence S. Pollock, Ira T. Moore, Jake L. Hamon, and Will K. Stripling as members of the Industrial Advisory Committee for the Eleventh 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 Dallas, as reported in your letter of February 13, 1953."

Approved unanimously.

Letter to The Citizens National Bank of Corry, Corry, Pennsylvania, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee for bond issues, provided the capital stock of your bank is increased to not less than $200,000 as required by the laws of the State of Pennsylvania. The exercise of such authority shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"Upon receipt of advice from the Federal Reserve Bank of Cleveland that your capital stock has been increased to not less than $200,000, a formal certificate evidencing your authority to act in the named capacity will be forwarded to you."

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

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

"Reference is made to your letter of January 7, 1953, and previous correspondence requesting a recommendation on the application to organize a national bank at St. Petersburg, Florida, under the title of St. Petersburg National Bank.

"We have received a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta setting forth information with respect to factors usually considered in connection with such applications. It appears that plans are under way for considerable development in the area which would be served by the proposed bank but that a pressing need for banking facilities is not apparent at this time and that the organization of a new bank might well be deferred until the area has been built up. Other unfavorable factors are the lack of arrangements for competent management and the relatively low capital structure of the proposed bank. It is understood, however, that the organizers would have no objections to increasing the initial capital if required to do so. After careful consideration of the situation and the factors set forth in your letter the Board of Governors is of the opinion that the application should not be approved at this time.

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

Approved, Governor Vardaman stating that he favored carrying out the recommendation of the examiner of the Federal Reserve Bank of Atlanta, who felt that the application should be granted, provided it was amended to call for a minimum of $400,000 capital funds for the proposed national bank.

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

"In October 1952, Mr. Walter E. Cosgriff, Chairman of the Board of the Continental Bank and Trust Company, Salt Lake City, Utah, talked with Governor Robertson regarding a proposal to establish a branch of the member bank in the vicinity of 5th Street East and East South Temple Street in Salt Lake City. It was understood that the bank had applied to the State banking authorities for permission to establish the proposed branch and, after a public hearing, the desired permission had been granted but Mr. Cosgriff had not been aware of the fact that it was also necessary to obtain the approval of the Board of Governors for the establishment of an in-town branch.

"Mr. Cosgriff was advised that the Board would wish to consider the matter in the light of current information and might wish to consult the State banking authorities. Mr. Cosgriff expressed some objection to any consultation with State authorities but said he had no objection to communication with or through the Federal Reserve Bank of San Francisco as he had discussed the matter with Messrs. Earhart and Slade.

"An examination of the bank had been started as of September 22, 1952. In view of the special circumstances of the case and the fact that Mr. Cosgriff did not wish to file a formal application for permission to establish the branch if it appeared that approval might not be forthcoming, it was agreed:

1. That the Board would advise Mr. Cosgriff through the Federal Reserve Bank of San Francisco after receipt of the current examination of the Continental Bank and Trust Company whether it would be inclined to give favorable consideration to an application for permission to establish the proposed branch.
2. That no publicity would be given the matter and the State authorities would not be consulted.

"The report of examination was recently received and has been given careful consideration. It is noted that, since admission to membership, deposits and loans have continued to expand and the relative capital position of the bank has deteriorated. At the time of its admission to membership the Board expressed the opinion that the capitalization of the bank was low in relation to its total assets and, particularly, in relation to the amount of its risk assets (total assets less cash and Government securities). In the circumstances, the Board would not approve a further expansion of the bank's activities through the establishment of a branch. You are requested to so notify Mr. Cosgriff in accordance with the agreement to which reference has been made.

"It has been noted that, in your letter of January 23, 1953, transmitting the report of examination to the Board of Directors of the bank, you called attention to the capital of the bank and requested advice as to any plans the directors might have in mind for reversing the unfavorable trend indicated. The Board feels that definite and prompt action to strengthen the capital position of the bank is necessary and asks that you so advise Mr. Cosgriff with the request that the reply of the bank's Board of Directors contain full information with respect to contemplated action."

Approved unanimously.

Supplemental letter to the Chairmen and Presidents of all Federal Reserve Banks, prepared in accordance with action taken at the meeting on January 28, 1953, and reading as follows:

"This letter is being addressed to the Chairmen and Presidents of all the Federal Reserve Banks in order to make clear the Board's position on certain points relating to the proposed plan for the administration of salaries of officers of the Federal Reserve Banks below the President and First Vice President to which reference was made "in the Board's letter of February 2, 1953. It is a supplement to that letter and is in addition to the communications which you will receive from time to time from the Special Committee.

"The principal objective of the plan would be to provide a common understanding of the bases used by the Directors and the Board in the determination of officers' salaries. The plan is designed to provide greater flexibility and freedom of action on the part of Directors of the Reserve Banks by establishing common guides for use of the Directors in their consideration of salaries and by the Board in its review of the salaries proposed. It is understood, of course, in view of its statutory responsibility, that the Board of Governors would continue to exercise the power to approve or disapprove in its discretion each individual salary proposal.

"When the material referred to in the last paragraph of this letter has been completed and reviewed by the Directors and the Board, the question of specific salary levels for the various officer groups at the respective Federal Reserve Banks will be considered by the Boards of Directors of the Banks and the Board of Governors.

"In order to expedite the adoption of the plan, the Board of Governors would like to receive from each Federal Reserve Bank by April 1, if possible, copies of the written statements of duties and responsibilities contemplated by the plan. It would also like to have by that date for its review and approval the description of the evaluation method used, the results of your grouping, and the plan of performance review (including the criteria) adopted by your Bank."

Approved unanimously.

Memorandum dated February 16, 1953, from Mr. Marget, Director, Division of International Finance, recommending that Mr. Dembitz, Assistant Director of that Division, be granted one day's absence on official business and allowed transportation expenses and per diem within the Board's travel regulations in order to accept an invitation to address a group of economists at a luncheon meeting at the Harvard Club in New York, New York, on February 27, 1953, on the international economic outlook in terms of foreign trade balances, the stability of foreign economies, and the American tariff situation.

Approved unanimously.

Secretary