

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

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

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. Young, Director, Division of Research and Statistics  
 Mr. Boothe, Administrator, Office of Defense Loans  
 Mr. Hackley, Assistant General Counsel  
 Mr. Noyes, Assistant Director, Division of Research and Statistics  
 Mr. Molony, Assistant to Mr. Thurston

Governor Vardaman referred to the discussion at the meeting on May 12, 1953, regarding a possible increase in the maximum permissible rate of interest on loans guaranteed under Regulation V, Loan Guarantees for Defense Production, and to the understanding at the meeting the following day that further consideration would be given to the matter at a later time. Governor Vardaman said he expressed the opinion to Chairman Martin earlier this morning that the Board should make a decision one way or the other, and that the Chairman said he would be unable to attend this meeting, but that if the matter were discussed and the other members of the Board reached a decision, he would be willing to concur.

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Governor Vardaman then requested Mr. Boothe to discuss a case brought to Mr. Boothe's attention by the Department of the Navy which involved reported reluctance on the part of a financing institution to renew or extend a V-loan maturing July 31, 1953, because of dissatisfaction with the net return to the financing institution. Governor Vardaman made it clear, however, that he felt the Board should not reach a decision on whether to increase the maximum rate of interest on the basis of circumstances related to any particular loan.

Mr. Boothe described the situation to which Governor Vardaman had referred, stating that a bank in the Twelfth Federal Reserve district had indicated that it would not be interested in renewing a particular V-loan unless its net return was as high as 3-3/4 per cent. He said that representatives of the Department of the Navy were proceeding to San Francisco to discuss the matter with the Federal Reserve Bank of San Francisco and the financing institution in question.

During a discussion of the views expressed by representatives of the guaranteeing agencies at the meeting called by the Board on May 6, 1953, and the comments received from the Federal Reserve Banks in response to the Board's telegram of May 7 requesting their views, Governor Vardaman recalled that most of the guaranteeing agencies took a neutral position on the question of an increase in the maximum rate of interest on guaranteed loans, and that at the time of the May 6 meeting none of them knew of any specific

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cases where financing had been impeded because of the current rate. Governor Vardaman went on to say that one of the functions of the V-loan program, as he interpreted it, was to interest more concerns in submitting bids on defense contracts and that to bid successfully such concerns must show evidence of potential financial strength. If lending institutions were not interested in making guaranteed loans, he said, the procurement agencies were denied the benefits of full competitive bidding on contracts. In further comments Governor Vardaman expressed the opinion that an increase in the maximum permissible rate of interest would not result in a higher rate of interest on all V-loans, since a higher maximum rate would merely increase the limit within which V-loans might be negotiated. Therefore he felt that an increase in the maximum rate would not represent an indication by the Board that the interest rate should be increased on any particular loan.

Governor Vardaman then stated that in view of the comments made by the Federal Reserve Banks, which reflected an opinion on the part of all of the Banks that the net return to financing institutions should be increased, either by an increase in the maximum rate or by an adjustment in the schedule of guarantee fees, he would recommend that the Board increase the maximum permissible rate to 5-1/2 per cent. However, he recommended against altering the current schedule of guarantee fees in any way.

Following a discussion, during which comments were offered as to why the schedule of guarantee fees had been fixed under the V-loan program and

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why the guaranteeing agencies had indicated in the past that they would not favor an adjustment of the current schedule, Governor Evans referred to the numerous public discussions of the trend toward higher interest rates recently. He said that he would be reluctant to vote for any increase in the maximum permissible rate of interest on V-loans until such time as the Board received in writing from the defense agencies statements to the effect that the rate should be increased in order to facilitate the defense procurement program. Governor Evans further indicated that he would not want to say at this time what position he would take with regard to increasing the maximum rate even if such statements were received.

Governor Robertson said that his views were along the lines of those expressed by Governor Evans. In view of the current discussion of interest rates in general, he felt that the Board would be on very unsound ground in increasing the maximum permissible rate on V-loans without having some indication from the procurement agencies that because of the existing maximum rate they were having difficulty in obtaining goods and services. Governor Robertson's position differed from that of Governor Evans, however, in that, as he had stated on previous occasions, he felt that the maximum permissible rate of interest under the V-loan program should be eliminated, that each loan should be negotiated freely in the market, and that the procurement agencies should be required to take that into consideration along with all other costs of procuring goods and services. If the maximum permissible rate were not to



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be eliminated, however, he favored no change in the existing maximum until the Board received some definite indication that the procurement program was being impeded. Governor Robertson also expressed the view that the effect of an increase in the maximum rate would be to increase the level of rates on V-loans in general, including those not made at the maximum rate.

Governor Mills said that while he felt the Board should consider the views of the Federal Reserve Banks, he did not believe that those views should be the determining factor. He pointed out that the defense agencies have procurement officers in all parts of the United States who presumably have an understanding of and are sympathetic to small business problems, and that consequently the Board should look to the procurement agencies for advice and assume that they were giving proper regard to that facet of the V-loan program. Therefore, until such time as the Board heard from the procurement agencies that they were having difficulty in attracting bids from small concerns because of the existing rate of interest on V-loans that the financing institutions may charge, he felt that the Board should not change the maximum permissible rate.

Governor Szymczak said that he was inclined to look with some sympathy on the view expressed by two of the Reserve Banks that no increase in the maximum rate was necessary but that a decrease in the guarantee fees might serve as an incentive to lending institutions to make more V-loans. He suggested that the Board might obtain the views of the guaranteeing agencies

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as to whether some reduction of the guarantee fees would improve their ability to obtain bids on contracts.

It having been ascertained that a majority of the Board members present would not favor an increase in the maximum permissible rate of 5 per cent at this time, there followed a discussion of what should be said to the guaranteeing agencies and the Federal Reserve Banks regarding the matter.

At the conclusion of the discussion it was agreed that Mr. Boothe should advise the guaranteeing agencies informally that the Board had decided against an increase in the maximum permissible rate at this time, but that it would like to know of any cases which might come to the attention of the guaranteeing agencies which indicated that difficulty was being experienced, particularly by small business concerns, in obtaining V-loans because of the existing maximum rate.

There was a brief discussion of the schedule of meetings of the Presidents' Conference, the Federal Open Market Committee, and the Board with the Presidents' Conference during the week of June 8 during which Governor Vardaman again expressed the opinion that all meetings of the Presidents' Conference should be held in Washington.

Following a statement by Governor Szymczak to the effect that although he felt that the meetings of the Federal Open Market Committee and the joint meetings of the Board with the Presidents should be held in Washington, he could see no reason why the Board should object to the meetings of the Presidents' Conference being held outside of the city, Mr. Carpenter reviewed briefly the discussion of this matter by the Board in

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the past. Governor Szymczak then suggested that it might be desirable for the Board to discuss the matter again at some time with a view to deciding what position it wished to take.

The Secretary stated that last week he received a telephone call from Mr. Allen Roland, Special Assistant to the Secretary of Commerce, who stated that the President had asked the Departments of Commerce and Labor to see what could be done to meet the problems of surplus labor areas and mentioned the possibility that the Board might issue a statement to banks in those areas suggesting an easing in the terms of credit. Mr. Carpenter said he gave Mr. Roland the reasons why in his opinion such a statement would not be an appropriate way to handle the problem, and told Mr. Roland that he would discuss the matter with others here at the Board and see whether there was any way in which the Federal Reserve System might be helpful. He added that subsequently he discussed the matter with members of the senior staff and with Governor Robertson, and that it was agreed that while a statement of the kind mentioned would not be appropriate, it might be possible for officers of the Federal Reserve Banks to participate in any discussions that might take place in their respective districts of steps that might be taken to solve the problems in such an area in the Federal Reserve district. The Secretary stated that he so informed Mr. Roland, who expressed a desire to come over to the Board and discuss the matter further, and that accordingly a meeting had been arranged with members of the Board's staff tomorrow afternoon

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with the understanding that Governor Robertson would attend if he were available.

There was a discussion of how informal requests of this kind should be handled at the conclusion of which it was agreed that appropriate members of the staff would meet with Mr. Roland tomorrow and that a memorandum of the meeting would be made.

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

The following request for travel authorization was presented:

<u>Name and Title</u>	<u>Duration of Travel</u>
Guy E. Noyes, Assistant Director, Division of Research and Statistics	May 22, 1953

To travel to Richmond, Virginia, to participate in a meeting of a System working group studying the sensitivity of consumer credit to general credit instruments.

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 the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on May 19, 1953, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 19, 1953, were approved unanimously.

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



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"In accordance with the request contained in your letter of May 14, 1953, the authorization heretofore given to your bank to designate George G. Reid as a special assistant examiner is hereby canceled.

"The Board approves the designation of George G. Reid as a special assistant examiner for the Federal Reserve Bank of Chicago for the specific purpose of rendering assistance in the examinations of The Detroit Bank, Detroit, Michigan."

Approved unanimously.

Letter to Mr. Willard I. Webb, Jr., President, The Ohio Citizens Trust Company, Toledo, Ohio, reading as follows:

"This refers to the request dated April 15, 1953, transmitted by Mr. William S. Miller for a determination by the Board of Governors of the Federal Reserve System as to the status of The Ohio Citizens Trust Company as a holding company affiliate.

"From the information supplied, the Board understands that The Ohio Citizens Trust Company is an Ohio corporation engaged in the banking and trust business and a member bank of the Federal Reserve System; that by reason of being appointed executor of the estate of a principal stockholder of The Commercial Bank and Savings Company of Fostoria, Ohio, The Ohio Citizens Trust Company, as executor, came into control of 497 shares of the stock of The Commercial Bank and Savings Company which, when added to 600 shares owned by The Ohio Citizens Trust Company as trustee, totaled 1097 of the 2,000 voting shares outstanding; that The Ohio Citizens Trust Company does not own any stock in any other banking institution in its own right; that it does own stock in various banks in Ohio and in other states in a fiduciary capacity; but that in all such cases its stockholding interest is very small and does not amount to a controlling interest.

"In view of these facts the Board has determined that The Ohio Citizens Trust Company is not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, The Ohio Citizens Trust Company will not be deemed to be a holding company affiliate, except for the purpose of section 23A of

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"the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

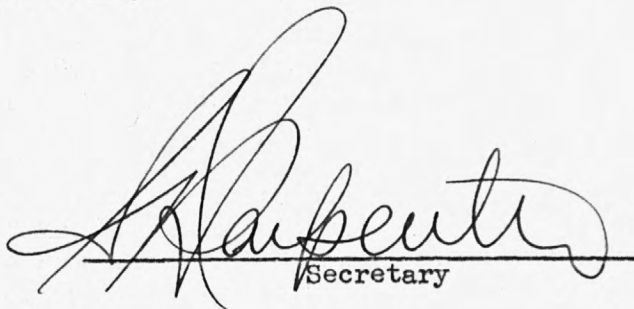
"If, however, the facts should at any time differ from those set out above to an extent which would indicate that The Ohio Citizens Trust Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts."

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

Telegram to Mr. Shuford, Vice President and General Counsel, Federal Reserve Bank of Dallas, reading as follows:

"Reurlets May 5 and 8, 1953 regarding question of El Paso Natural Gas Company under Regulation U. After careful consideration Board is of the view that loans in question should be considered to be 'secured directly or indirectly by stock' and, accordingly, subject to Regulation U."

Approved unanimously.

  
Secretary