

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 25, 1953. The Board met in executive session in the Board Room at 10:00 a.m.

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

Thereafter, the Secretary was informed by the Acting Chairman that during the executive session the following request for travel authorization was approved unanimously:

<u>Name and Title</u>	<u>Duration of Travel</u>
Woodlief Thomas, Economic Adviser to the Board	June 19-20, 1953

To attend and participate in a meeting of the Conference of Business Economists, to be held in Atlantic City, New Jersey. A memorandum dated May 22, 1953, from Mr. Thomas which accompanied the request for travel authorization stated that he would participate in "off-the-record" discussions concerned with the current business situation and with some theoretical aspects of the problems of economic stabilization.

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 May 22, 1953, were approved unanimously.

Letter to the Board of Directors, St. Joseph Valley Bank, Elkhart, Indiana, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves

5/25/53

-2-

"the establishment and operation of the branch at 300 East Bristol Street, Elkhart, Indiana, which was opened for business on May 4, 1953, by the St. Joseph Valley Bank. However, the Board wishes to impress upon the directors the desirability of bringing about a more satisfactory relationship between the capital structure of the bank and the volume of business which it is handling. It is suggested that immediate consideration be given to some program for strengthening the bank's capital structure through the introduction of new capital funds."

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

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 Whittier, Whittier, California, became a member of the Federal Reserve System on May 18, 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. Dawes, Vice President and Secretary, Federal Reserve
Bank of Chicago, reading as follows:

5/25/53

-3-

"This refers to your letter of April 21, 1953, and its enclosures, concerning the application of Regulation T or U to a plan proposed by the Midway Chemical Employees Federal Credit Union, Chicago, Illinois, to aid its members in purchasing stock of American Home Products Corporation whose subsidiary, Boyle-Midway, Inc., apparently is the employer of all the Credit Union's members. Your letter was acknowledged under date of April 30, 1953.

"From the information submitted, the plan appears to contemplate that the Credit Union will accept orders from its members for registered common stock of American Home Products Corporation in multiples of 5 shares; that whenever orders have been so received for a total of 100 shares, the Credit Union, as agent for such members, will execute the orders through a brokerage firm with membership on a national securities exchange; that the brokerage firm will deliver certificates for the stock, registered in the names of the individual purchasers, to the Credit Union against payment by the Credit Union; that the Credit Union will prorate the total amount so paid, including the brokerage fee, among the individual purchasers according to the number of shares purchased by them; and that a savings in brokerage fee resulting from the 100-lot purchases will be passed on by the Credit Union to the individual purchasers of the stock. However, amounts of the stock less than 100 shares will be purchased by the Credit Union through the brokerage firm for any members who may be willing to forego such savings.

"It appears further that the Credit Union members for whom stock is so purchased will reimburse the Credit Union (1) by cash payment, (2) by the proceeds of withdrawn shares of the Credit Union, (3) by the proceeds of an installment loan from the Credit Union collateralized by the stock purchased, or (4) by a combination of two or more of the above methods. To assist the collection of any such loan, the employer, Boyle-Midway, Inc., will provide payroll deductions. Apparently, sales by the Credit Union of any of the stock purchased by one of its members would occur only in satisfaction of a delinquent loan balance.

"From the correspondence submitted by you, it appears that you do not regard the Credit Union as the type of institution to which Regulation U, in its present form, is applicable. There is nothing in the facts as presented that would appear to warrant a different view.

5/25/53

-4-

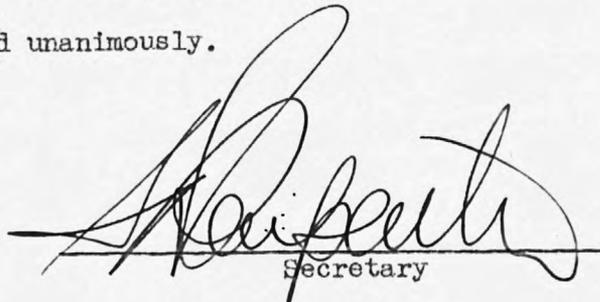
"So far as Regulation T is concerned, the question, as you indicated, is whether the activities of the Credit Union under the proposal, or otherwise, may be such as to bring it within the meaning of the terms 'broker' or 'dealer' as used in the regulation and the Securities Exchange Act of 1934. This, of course, is always a question of fact that necessarily depends upon the circumstances of the particular case, including the manner in which the arrangement in question may be carried out in practice.

"On the basis of the information submitted, it does not appear to the Board that the Credit Union should be regarded as being subject to Regulation T as a 'broker or dealer who transacts a business in securities through the medium of' a member firm solely because of its activities as contemplated by the proposal in question. The regulation rather clearly would not apply if there appeared to be nothing other than loans by the Credit Union to its members to finance purchases made directly by them of stock of the parent corporation of the employer of the member-borrowers. The additional fact that the Credit Union, as agent, purchases such stock for its members (even though all such purchases may not be financed by Credit Union loans) should not, in the Board's view, make the regulation applicable where it does not appear, as in the present case, that the Credit Union is to make any charge or receive any compensation for assisting in such purchases, or that the Credit Union otherwise is engaged in securities activities. However, matters of this kind must be examined closely for any variations that might suggest the inapplicability of the foregoing.

"There is enclosed for your information a copy of a letter dated May 15, 1953 received from the Securities and Exchange Commission which, as you will note, is in accord with the views just expressed.

"In the light of the broad language in the Board's letter of April 1, 1947, to the Detroit Edison Credit Union, your conclusion contrary to the foregoing is quite understandable; and the Board appreciates your having brought the matter to its attention for further consideration and review."

Approved unanimously.



Secretary