

5/28/53 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 28, 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  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Noyes, Assistant Director, Division of Research and Statistics  
 Mr. Cherry, Legislative Counsel

Governor Robertson referred to the discussion at the meeting yesterday concerning the reply to be made to the letter dated May 20, 1953, from the Bureau of the Budget requesting the Board's comments on a draft bill submitted by the Housing and Home Finance Administrator "to amend the National Housing Act and other laws relating to housing". He stated that he had subsequently discussed the matter with members of the Board's staff and that, as a result, there was prepared a revised draft of reply, copies of which were sent to all of the members

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of the Board prior to this meeting. Governor Robertson pointed out that the revised draft stressed the Board's concern with the substantial relaxation in down payment requirements which would result from proposed changes in the law and that the comments on the proposed changes in the National Housing Act relating to the Mutual Mortgage Insurance Fund emphasized that the whole system of Federal mortgage insurance should operate to encourage sound credit practices. Governor Robertson also said that all of the members of the staff with whom he discussed the matter agreed with this approach.

Following a discussion, during which certain minor changes in the revised draft were proposed, unanimous approval was given to a letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This is in reply to your letter of May 20, 1953, requesting the Board's comments on a draft bill submitted by the Housing and Home Finance Administrator 'to amend the National Housing Act and other laws relating to housing'.

"A number of features of the proposed legislation appear to the Board to be undesirable or inappropriate at this time. The Board, along with other agencies of the Government, carries a heavy burden of responsibility for the maintenance of sound and stable economic conditions in the United States. Probably the most important change from the point of view of maintenance of a sound and stable economy is the substantial relaxation in down payment requirements which would result from proposed changes in the law. These changes would reduce the down payment required for new

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"and used single-family houses substantially in almost all price ranges, the largest relaxations being for new single-family houses in the \$12,000 to \$15,000 range and for new and used houses valued between \$22,000 and \$25,000.

"The down payments for new houses in the \$10,000 to \$15,000 price range--varying from 8 per cent at the bottom of the range to 12 per cent at the top--would be more liberal than any terms which have heretofore been available, except under the Servicemen's Readjustment Act, and even more liberal than the bulk of the loans made under that program. Heretofore financing in the \$20,000 to \$25,000 range has been primarily on a conventional basis and down payments of about one-third have been required, in contrast to the 20 per cent proposed in the amendments. Taken together these changes would unquestionably afford a considerable stimulus to new building activity. Furthermore, it seems likely that the stimulus to new building would be heavily concentrated in the \$11,000 to \$12,000 price range where the down payment would almost be cut in half and the maturity extended to 30 years. Apart from considerations of total volume, there is serious reason to question whether long-term developments in population, family formation and household composition justify so much stimulation of building in this price range.

"Since the end of World War II, residential financing has been one of the major users of long-term credit. Mortgages outstanding on 1 to 4 family nonfarm houses alone have increased by about 40 billion dollars, and even in 1951 and 1952, when both selective and general credit controls were affording some restraint in this area, outstandings increased by over 6 billion dollars each year. While a substantial growth in real estate credit may have been necessary in order to meet the need for new housing with which the country was faced after the end of World War II, the rapidity of the growth that has taken place has been an important contributing factor to the inflationary problems which have plagued us throughout most of the postwar period. At the present time we find ourselves in a fairly stable but delicately balanced economic situation. Under these circumstances positive Government action to liberalize terms and stimulate Government-aided housing operates in the direction of instability. It is altogether conceivable that at

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"some future time a further relaxation in the terms available to home purchasers would contribute to stability, and might in fact be a major factor in stemming a serious downturn in this important economic sector. With building activity at present high levels, there seems to be no justification for the added stimulus which would result from a relaxation at this time; and in fact it would add considerably to the problem of maintaining balance in the economy generally.

"The Board is less directly concerned with the proposed changes in the Act relating to the Mutual Mortgage Insurance Fund, but we are concerned that the whole system of FHA mortgage insurance operate to encourage sound credit practices. We feel that the sound principles of mutual insurance which were envisaged in the original legislation should be retained and that the original philosophy of setting up groups of mortgages classified in accordance with sound actuarial practice and risk characteristics should be maintained. It is our view that the transfer of larger amounts into the general reinsurance fund would operate to dilute the mutual fund principle and tend to convert FHA insurance into a system of Government underwritten guarantees.

"Consideration should also be given to the effect on individual home owners who have purchased homes in reliance upon the provisions of the present law. While there may be technically no abrogation of contract by the Government involved in the proposed amendments, there is a serious question that the proposed change is equitable and just. Even if the basis on which the FHA mutual fund is to operate should be changed--and we do not agree that it should be--it would seem more equitable that the change should apply only to contracts entered into after the date of the change, not retroactively to contracts which have been running for a number of years.

"In the above we have confined our comments to a few of the provisions of the proposed legislation which appear to be most significant from the Board's standpoint, and the absence of comment on other provisions should not be regarded as an endorsement of them."

Messrs. Noyes and Cherry then withdrew from the meeting and Mr. Solomon, Assistant General Counsel, entered the room.

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Governor Szymczak reviewed a memorandum dated May 26, 1953, from Mr. Solomon, copies of which had been sent to the members of the Board, proposing an amendment to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, to make it clear that loans to purchase shares of open-end investment companies whose portfolios customarily include registered stocks are subject to the requirements of the regulation. The memorandum summarized the reactions to the publication in the Federal Register, pursuant to the decision reached at the meeting of the Board on February 25, 1953, of a request for comments on the proposed amendment. In order that there might be ample time to publish and send to banks in advance of the effective date a list of securities of open-end investment companies which would be affected, the memorandum also suggested that the amendment be made effective on August 1, 1953.

Thereupon, upon motion by Governor Szymczak, unanimous approval was given to Amendment No. 12 to Regulation U, as follows, with the understanding that the Federal Reserve Banks would be requested to print and, after the release date of the press statement quoted below, make appropriate distribution of the amendment in their respective districts, and with the further understanding that an appropriate statement would be placed in the Federal Register after the release date of the press statement:

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"Effective August 1, 1953, subsections (b) and (c) of section 3 of Regulation U are hereby amended to read as follows:

'(b)(1) No loan, however it may be secured, need be treated as a loan for the purpose of "carrying" a stock registered on a national securities exchange unless the loan is as described in section 3(b)(2) or the purpose of the loan is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or a dealer, to carry such stocks for customers.

'(2) A loan for the purpose of purchasing or carrying a "redeemable security" (i.e. a redeemable proportionate interest in the issuer's assets) issued by an "open-end company", as defined in the Investment Company Act of 1940, whose assets customarily include stocks registered on a national securities exchange, shall be deemed to be for the purpose of purchasing or carrying a stock so registered.

'(c) In determining whether or not a security is a "stock registered on a national securities exchange" or a "redeemable security" described in section 3(b)(2), a bank may rely upon any reasonably current record of such securities that is published or specified in a publication of the Board of Governors of the Federal Reserve System."

Unanimous approval also was given to a press statement reading as follows for release in morning newspapers of June 9, 1953:

"The Board has adopted an amendment to Regulation U, the regulation which prescribes margin requirements (currently 50%) on loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. A copy of the amendment is attached.

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"The amendment makes it clear that the regulation applies to loans for the purpose of purchasing or carrying certain shares issued by open-end investment companies whose assets customarily include registered stocks. The shares affected give the purchaser a proportionate interest in the issuing company's assets, and carry the right to convert his interest into the company's underlying assets or their cash equivalent. Such shares are technically called 'redeemable securities'.

"The action does not affect Regulation T, which, among other things, forbids securities brokers and dealers to lend on securities not registered on a national securities exchange. Therefore, 'redeemable securities' of open-end investment companies cannot be given loan value by brokers or dealers unless they are registered on a national securities exchange, which rarely is the case. And, of course, this action does not affect section 11(d)(1) of the Securities Exchange Act of 1934 which prohibits a broker-dealer from extending credit, or arranging for the extension of credit, on any security which was part of a new issue in the distribution of which he participated within the preceding six months."

Governor Szymczak then commented on a memorandum from Mr. Solomon dated May 27, 1953, copies of which had also been sent to the members of the Board, regarding a letter dated April 20, 1953, from Mr. G. Keith Funston, President of the New York Stock Exchange, in which Mr. Funston proposed in effect that credit granted to "floor traders" be exempted from the margin requirements of Regulation U and Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges. Pursuant to the Board's action of April 30, 1953, comments on the proposal had been obtained from the Federal Reserve

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Banks and the Securities and Exchange Commission. These comments reflected some difference of opinion among the Reserve Banks and strong opposition to the proposal on the part of the Securities and Exchange Commission.

Governor Szymczak stated that he concurred in the conclusion reached in the memorandum from Mr. Solomon that in the circumstances it would be difficult to justify granting the proposed exemption.

Thereupon, unanimous approval was given to a letter to Mr. Funston in the following form:

"This is with further reference to your letter of April 20, 1953, to Governor Szymczak in which you suggest that credit granted to Floor Traders be exempted from the margin requirements of Regulations T and U. As you know, the Board of Governors is of course always glad to discuss this or any other questions that may arise under these regulations.

"Careful consideration has been given to the question in the light of your letter of April 20, the views expressed by the Trading and Exchanges Division of the Securities and Exchange Commission in response to the Board's request for comments, the general status of Floor Traders in the securities market, and the relationship of the proposal to the general purposes of the regulations.

"However, it is the view of the Board after considering the various factors involved that it would not be warranted in exempting credit for Floor Traders from Regulations T and U at this time."

Governor Szymczak referred to previous discussions by the Board of requests for broadening the "subscription rights" privileges of



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Regulations T and U, and it was stated that a further memorandum from the staff on this matter was being sent to the members of the Board preliminary to further discussion at a meeting of the Board.

Reference was made to a memorandum dated May 21, 1953, from Mr. Bethea, Director of the Division of Administrative Services, which had been circulated among the members of the Board, recommending that the Board approve the installation in certain offices in the Board members' area on the second floor, of fluorescent lighting fixtures of the type being installed elsewhere throughout the building pursuant to the Board's action of February 20, 1953. The memorandum stated that it would be possible to equip the offices involved for an additional outlay of \$1,121.18, and recommended that the Board authorize the Division of Administrative Services, in consultation with Governor Evans, to purchase the needed additional fixtures and to contract for their installation, with the understanding that no provision had been made in the Division's 1953 budget for the expense involved.

Following a discussion, during which it was indicated that some of the members of the Board would prefer to retain the present lighting fixtures in their outer offices, Chairman Martin suggested that the fluorescent lighting fixtures referred to in Mr. Bethea's

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memorandum be installed in those offices in the Board members' area where a desire was expressed to have the installation made.

Chairman Martin's suggestion was approved unanimously.

Governor Robertson stated that the Devon-North Town State Bank, of Chicago, Illinois, which was the subject of the Board's action on March 27, 1953, under section 9 of the Federal Reserve Act and which was subsequently closed for examination and adjustment by the State of Illinois Auditor of Public Accounts, was to reopen for business this morning, conditions of the State authorities for disposal of certain discount paper sold to the institution by Bankers Discount Corporation, of Dallas, Texas, and for a change in the management of the bank having been met. Governor Robertson said that plans were being made to elect new directors of the bank at a stockholders' meeting within the near future and that, in view of developments, he would recommend that the Board approve an Order postponing the date of the hearing in connection with the section 9 proceeding.

Governor Robertson's recommendation was approved unanimously.

There had been circulated among the members of the Board a draft of reply to a communication from the Secretary of State dated May 6, 1953, requesting the views of the Board as to the desirability

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of accepting an invitation from the Government of Italy to send an official United States delegation to the meeting of the International Statistical Institute to be held in Rome in September of this year. The proposed reply took the position that the Board had no fixed views on the desirability of sending a United States delegation but that if it were decided to do so, consideration perhaps should be given to including in the delegation a member of the Board's staff familiar with the measurement of industrial production in this country since the preliminary agenda indicated there would be a series of discussions devoted to questions in that field.

Chairman Martin and Governor Robertson had questioned whether, in the circumstances, anyone from the staff should attend the meeting, and at this meeting Governor Robertson stated that he felt the Board should reach a conclusion as to whether the meeting of the Institute warranted the sending of a United States delegation before suggesting that it might be prepared to send a member of its staff to the meeting.

Following a discussion, it was suggested that the matter be referred to Governor Mills with the request that he have the staff develop further information regarding the International Statistical Institute which would assist the Board in reaching a decision on the reply to be made to the Secretary of State.

This suggestion was approved unanimously.

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Governor Robertson said that he understood certain banks had raised with the Office of the Comptroller of the Currency the question whether they would be permitted to accumulate on their books the discount on Government securities purchased below par, and that a representative of the Comptroller's Office had asked for the informal views of the Board on the matter. Governor Robertson said that the Comptroller's Office would like to make a decision today, but that he intended to ask the opinions of members of the Board's staff, that he would welcome any views of other members of the Board, and that he would give no reply to the Comptroller's Office until he had discussed the matter and had reported to the Board on the results of those discussions.

The members of the staff then withdrew and the Board went into executive session.

Following the executive session the Secretary was informed that the Board had appointed Mr. Chase, Assistant General Counsel, as Legal Officer for the purposes of the security regulations adopted by the Board on May 27, 1953. This action was taken with the understanding that the Legal Officer should keep the General Counsel fully informed as to all of his activities in the handling of cases that become subject to security proceedings, and that the General Counsel would exercise his personal judgment as to the

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extent of consultation that he would wish with the Legal Officer and the extent to which he would cooperate with that officer in reaching conclusions.

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 27, 1953, were approved unanimously.

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

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Chicago for the period May 21, 1953, through June 30, 1953, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of May 22, 1953.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
LeRoy A. Davis	Assistant Cashier	\$8,000
Harry S. Schultz	Assistant Cashier	6,500
Fred H. Grimm	Assistant Cashier	8,200"

Approved unanimously.

Letter to the Board of Directors, The Marine Trust Company of Western New York, Buffalo, New York, reading as follows:

"The Board of Governors approves the establishment and operation of a branch by The Marine Trust Company of Western New York at 256-260 Third Street,

