

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 29, 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. Carpenter, Secretary
 Mr. Sherman, 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. Solomon, Assistant General Counsel

Unanimous approval was given to a suggestion by Governor Vardaman that Mr. Youngdahl, Assistant Director, Division of Research and Statistics, be authorized to travel to Knoxville, Tennessee, for the purpose of participating in the Tenth Annual Study Conference of the Tennessee Bankers Association to be held at the University of Tennessee on September 7-8, 1953.

Before this meeting there had been sent to the members of the Board for approval drafts of letters to the Federal Reserve Banks of New York and Chicago referring to the question of executives' stock option plans under 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. This question had been discussed

7/29/53

-2-

at meetings of the Board earlier this year, particularly at the meeting on February 13, 1953. The drafts of letters, which stated that the Board believed that amendment of the regulations to make special provision for executives' stock options would not be desirable at this time, had been approved by Chairman Martin and Governors Szymczak, Evans, and Mills, but Governor Vardaman had indicated that he questioned the appropriateness of the proposed letters. There also had been in circulation a draft of letter for the signature of the Chairman to Mr. William E. Huger, Atlanta, Georgia, with respect to the application of Regulation T to the conversion of convertible securities, stating that the Board was inclined to feel that it would not be appropriate at this time to extend the privileges of the special subscriptions account beyond its present terms, and Governor Vardaman had also indicated that he questioned the appropriateness of this proposed reply.

Governor Szymczak referred to the letter sent to the Federal Reserve Banks under date of January 14, 1953, requesting their views on the "subscription rights" proposal. He stated that a majority of the Reserve Banks, including the Federal Reserve Bank of New York, did not favor extension of the privilege of lower margin requirements to executive stock option plans, largely because of the administrative problems that would be created by such an amendment giving special credit privilege to such acquisitions of securities. Governor Szymczak went on to say

7/29/53

-3-

that further study had been given to the matter in recent months and that it was the conclusion of some of the members of the Board's staff, which he shared, that amendment of the regulations to make special provision for executive stock option plans would not be desirable at this time, although the considerations which had prompted the proposal should be borne in mind in any general review of the regulations which might be undertaken.

Governor Vardaman stated that he could not see the logic of this procedure, that if there was merit to the proposal for granting special privileges to executive stock option plans it should be possible for the Board to work out a procedure to deal with the situation, and that if there was not merit to the proposal the Board should so indicate in stating that it did not wish to approve an amendment to the regulations. Governor Vardaman went on to say that he was inclined to think the suggestion had merit, but that he would like to have a discussion of the question.

Governor Szymczak said that the proposal that executives of corporations be given the privilege of a 25 per cent margin in exercising stock options (given to them as a part of their compensation) grew out of the action of the Board in 1949, in amending the regulations to grant a 25 per cent margin to purchases of stock under subscription rights, whether exercised by persons to whom the rights originally were issued

7/29/53

-4-

or by persons who had purchased the rights in the market. If those special privileges had not been granted, Governor Szymczak felt that there would be little reason for considering the suggestion that special privileges be granted for executive stock option or employee stock purchase plans.

Mr. Riefler stated that the special exemption accorded purchases of securities under subscription rights in 1949 was based on the desire to facilitate raising of equity capital by corporations, in contrast with their obtaining financing through non-equity capital. The proposal for special margin privileges for executive stock option and employee stock purchase plans, Mr. Riefler said, was not ordinarily for the purpose of encouraging the flotation of new equity capital but rather appeared to be for the purpose of encouraging and aiding executives and employees to become owners in the companies for which they worked. Thus, such a special privilege would be based on a principle which would not follow as a logical accompaniment to the special privileges accorded stock holders' subscription rights.

Mr. Solomon stated that in informal conversations which the representatives of the Federal Reserve Bank of New York had had with some of the staff of the New York Stock Exchange it was brought out that the existing privilege in the regulations relating to subscription rights was creating administrative problems which might become serious if such a special

7/29/53

-5-

privilege of buying stock on low margin were to be given on a much broader basis. Mr. Solomon indicated that, in amending the regulation in 1949, it had been hoped that use of the special 25 per cent margin privilege with respect to exercise of subscription rights would be principally in cases where individuals were temporarily unable to purchase the rights but expected to be able to pay for the new securities out of savings within a few months. The recent discussions with Stock Exchange staff indicated, however, that the 25 per cent margin for purchases under subscription rights was being applied by individuals who were primarily interested in holding the securities at the reduced margin until they could sell them at a profit. It had been suggested, Mr. Solomon said, that if special low margin privileges were extended further in the manner such as had been proposed, it might result in creating a considerable overhang of thinly margined commitments which could cause difficulties in the market at times when purchasers were unable to meet calls for additional margin. On the whole, Mr. Solomon felt that it would be very difficult to work out a satisfactory procedure for extending the special margin privileges to executive or employee stock option plans.

During a further discussion, Governor Vardaman expressed the view that it was regrettable that some system could not be worked out whereby employees and officers of corporations could be encouraged to invest in shares of the corporations for which they worked on terms more favorable

7/29/53

-6-

than those ordinarily available to the public. With this reservation, he stated that he would concur in approving the letters.

Thereupon, unanimous approval was given to the following letters to Mr. Sproul, President of the Federal Reserve Bank of New York, and Mr. Dawes, Vice President of the Federal Reserve Bank of Chicago:

Letter to the Federal Reserve Bank of New York

"This is with further reference to the question of executives' stock option plans under Regulations T and U. You will recall that, among other correspondence on this matter, your letter of January 16, 1953, forwarded several copies of a memorandum on the subject by Mr. Sidney J. Weinberg.

"Regulations T and U contain special provisions relating to credit for the acquisition of stock through the exercise of rights issued to stockholders. Under these special provisions executives of a corporation have, of course, the same privileges as all other persons. An amendment to give them greater privileges, and ones which are not generally available to others, would seem to be concerned chiefly with problems of executive compensation rather than questions of credit or credit regulation. In view of the purposes of the credit regulations, it seems doubtful that such special credit privileges would be an appropriate means of attempting to solve problems which appear to be essentially non-credit in character.

"As you know, margin requirements were 75% when the Board initially considered this question and when Mr. Weinberg's memorandum was presented. The subsequent reduction of margin requirements to 50% is not directly related to the question of executives' stock options, but it does, among other things, facilitate the exercise of such options.

"The considerations referred to by Mr. Weinberg will be borne in mind in connection with the Board's continuing study of the margin regulations and related problems, and also in connection with any general review of those regulations which might be undertaken. However, considering all the relevant facts and circumstances, the Board believes that an amendment of the regulations to make special provision for executives' stock options would not be desirable at this time."

7/29/53

-7-

Letter to the Federal Reserve Bank of Chicago

"This is with further reference to the question of executives' stock option plans under Regulations T and U. You will recall that this was the subject of your letter of November 10, 1952, and the letter from Mr. Henry T. Bodman, General Vice President of the National Bank of Detroit, which you enclosed with your letter.

"Regulations T and U contain special provisions relating to credit for the acquisition of stock through the exercise of rights issued to stockholders. Under these special provisions executives of a corporation have, of course, the same privileges as all other persons. An amendment to give them greater privileges, and ones which are not generally available to others, would seem to be concerned chiefly with problems of executive compensation rather than questions of credit or credit regulation. In view of the purposes of the credit regulations, it seems doubtful that such special credit privileges would be an appropriate means of attempting to solve problems which appear to be essentially non-credit in character.

"As you know, margin requirements were 75% when Mr. Bodman initially presented this question. The subsequent reduction of margin requirements to 50% is not directly related to the question of executives' stock options, but it does, among other things, facilitate the exercise of such options.

"The considerations referred to by Mr. Bodman will be borne in mind in connection with the Board's continuing study of the margin regulations and related problems, and also in connection with any general review of those regulations which might be undertaken. However, considering all the relevant facts and circumstances, the Board believes that an amendment of the regulations to make special provision for executives' stock options would not be desirable at this time."

Unanimous approval also was given to the following letter for Chairman Martin's signature to Mr. William E. Huger, Courts & Co., 11 Marietta Street, Atlanta, Georgia, reading as follows:

"I am sorry I have not been able to write you sooner regarding the application of Regulation T to the conversion of convertible securities. You will recall that this was the subject of your letter of October 7, 1952, and mine of October 21.

7/29/53

-8-

"It appears that an amendment to the regulation would be necessary if conversions of convertible securities were to be given the privileges of the special subscriptions account as you suggest. The Board has given careful consideration to the possibility of such an amendment, but has been inclined to feel that it would not be appropriate at this time to extend the privilege of the special subscriptions account beyond its present terms. In connection with special provisions of this kind, almost any line of division between regular transactions and privileged ones is likely to be subject to certain objection, and the Board was inclined to doubt that a broadening of the privilege at this time would result in general improvement of the provision.

"In the meantime, as you know, the standard margin requirements have been reduced from 75% to 50%. This is not directly related to questions concerning the special subscriptions account, but it probably will have some tendency to reduce the practical significance of any such questions that might arise."

Messrs. Thurston, Vest, and Solomon withdrew from the meeting at this point.

Mr. Riefler stated that he had received word from Treasury representatives that the savings bond sales program was being revitalized and that arrangements were being made for having newly appointed State Directors visit Washington the latter part of August or early in September. It was planned to have the State Directors visit the Treasury Department, the Pentagon, and the State Department, Mr. Riefler said, and the question had also been raised as to whether they might be brought to the Board's building for a visit and for a review of the economic situation. Mr. Riefler felt that such a visit would be desirable and that consideration might be given to inviting them to luncheon.

7/29/53

-9-

Chairman Martin expressed the view that the State Directors should be invited to the Board's building for the economic review, provided it did not burden the Division of Research and Statistics unduly, but that for reasons which he stated it would not be desirable to extend an invitation for luncheon at this time.

Following a discussion, Chairman Martin's suggestion was approved unanimously, with the understanding that Messrs. Riefler and Young would complete the necessary arrangements and that the group would not be invited to luncheon unless the Treasury requested it.

Mr. Thomas stated that he had received a telephone call yesterday from Mr. E. C. Johnson, Assistant Deputy Land Bank Commissioner of the Farm Credit Administration, United States Department of Agriculture, stating that a group of representatives of the Federal Land Banks would be meeting in Washington in September and asking him to speak to them. Mr. Thomas said that he informed Mr. Johnson he would be glad to talk to the group, subject to approval of the Board. Mr. Thomas also said that he had discussed the matter with Governor Evans, and he raised the question whether the Board might wish, as an alternative, to invite the group to the Board's building for an economic review.

Following a brief discussion, the matter was referred to Governor Evans with power to act.

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

7/29/53

-10-

Thereafter the Chairman informed the Secretary that during the executive session consideration was given to the memoranda submitted by Arthur Andersen & Co. under dates of May 16, 1952, and April 17, 1953, in connection with audits by that firm of the Board's accounts for the year 1952, and that the Board took the following actions:

1. The Personnel Committee, which has been inactive for a period of time by informal agreement of the members of the Board, was formally abolished and the duties of the Personnel Committee were returned to the Board.

2. The actions taken by the Board on March 20, 1947, with respect to (a) use of Board automobiles, (b) distribution of speeches and articles, (c) assignment of employees to one office when carried on the payroll of another office, (d) use of messengers for private purposes, (e) gatherings, luncheons, dinners, etc., at the Federal Reserve Banks, and (f) handling of questions of propriety of expenditures of Board funds, and the procedures and required approvals established pursuant thereto were revoked, with the express understanding that the actions of the individual members of the Board with respect to each of these matters would be governed solely by his judgment and conscience.

3. Subject to determination by the Chairman whether Mr. Edwin J. Johnson, Assistant Director of the Division of Administrative Services, would accept appointment to the position of Controller, the latter was appointed to that position as of August 1, 1953, with the understanding (1) that as Controller he would report to the Board through the Chairman and would head up a new division of the Board's staff to which would be transferred the personnel of the fiscal section of the Division of Administrative Services and the functions performed by that section, and (2) that the duties of the Controller with respect to the Board's budget and the handling

7/29/53

-11-

of the Board's funds and accounts would be worked out by the Chairman in consultation with Mr. Johnson and submitted to the Board for approval. It was also understood that in the event Mr. Johnson accepted the position, the Chairman would make such recommendation to the Board as appeared to him to be desirable with respect to an appropriate salary for the position. Upon the Chairman's recommendation, the creation of the office of the Controller and the appointment of Mr. Johnson as Controller was on a trial basis for an indefinite period.

Secretary's note: Subsequently Mr. Johnson informed the Chairman that he would accept appointment as Controller.

4. The Board agreed with the recommendation of the staff that the functional expense field surveys conducted by the Division of Bank Operations should not be transferred to the Division of Examinations.

5. It was understood that the procedure to be followed in a review of Board forms should be considered on the basis of a recommendation to be made by the Controller after he has had an opportunity to look into the matter.

6. The recommendation of Andersen & Co. that the Federal Reserve Banks adopt a single chart of accounts and uniform accounting procedures was rejected, and it was understood that the Federal Reserve Banks would be advised accordingly.

Thereupon the meeting adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Robertson present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 28, 1953, were approved unanimously.

7/29/53

-12-

Letter for the signature of the Chairman to The Honorable E. Ross Adair, House of Representatives, Washington, D. C., reading as follows:

"This is in reply to your letter of June 30, 1953, requesting comments on an attached Report of Meeting Relating to Investments in Real Estate Mortgages by National Banks.

"The report for the most part recommends a number of amendments to the Federal Reserve Act relaxing the existing restrictions on national banks with respect to the types and amounts of real estate and construction loans they are authorized to carry. The report indicates that the purpose of these changes is to help national banks meet competition in mortgage loans.

"Specifically, the report recommends that Section 24 of the Federal Reserve Act covering real estate loans by national banks be amended to (1) increase the maximum allowable maturity on construction loans from six to nine months, (2) increase the ceiling on the amount of construction loans a national bank may hold from 50 per cent of capital only to 50 per cent of capital and surplus, (3) increase the maximum allowable maturity on real estate loans from 10 to 20 years, provided the loan does not exceed $66\frac{2}{3}$ per cent of appraised value and is fully amortized over the life of the loan in substantially equal payments, and (4) exclude loans fully insured under the National Housing Act from the aggregate limitation on real estate loans (60 per cent of time and savings deposits or 100 per cent of capital and surplus, whichever is greater). In addition, the report recommends that real estate loans be 'permitted to be made by a national bank to its officers on homes costing up to \$20,000, provided such loans do not exceed 10 per cent of the capital and surplus of the bank.' This would apparently be an amendment to

7/29/53

-13-

"Section 22(g) of the Federal Reserve Act, which applies to all member banks of the Federal Reserve System and prohibits any loan in excess of \$2,500 by any such member bank to any of its executive officers.

"The proposed amendment increasing the maximum maturity on construction loans from six to nine months appears modest in scope and not open to serious question. The necessity for this change, however, is not entirely clear, since most residential and farm buildings covered by the law can be completed within six months, and renewals are possible under present law in appropriate cases.

"A change in the formula for determining the aggregate limitation on construction loans to include surplus as well as capital would provide a more reasonable standard than is provided under present law. However, this would mean a substantial increase in the limit, which raises the question whether such a change should not be accompanied by some downward adjustment in the prescribed percentage.

"An increase in the maximum maturity on real estate loans from 10 to 20 years under the conditions regarding amortization set forth in the Report would bring the limitation more in line with prevailing standards and practices for real estate financing. In some respects the requirement for full amortization over the life of the loan could lead to acquisition of more desirable mortgages than are now obtained under present provisions which provide for a substantial 'balloon' payment to follow the regular instalment payments.

"The proposed increase in the effective aggregate limitation on real estate loans by excluding from the limitation all loans insured under the National Housing Act does not appear necessary at this time, since it is believed that few banks are now at their ceilings. Moreover, such an exclusion might tend to encourage an over-concentration of assets in real estate mortgages by commercial banks which would be incompatible with the demand character of the bulk of their deposit liabilities.

7/29/53

-14-

"Some liberalization of the present \$2,500 ceiling on loans by member banks to their executive officers appears to have much merit in view of the change of economic conditions since enactment of that section of the law. The degree of relaxation proposed in this case, however, is not entirely clear and may be greater than is necessary or desirable.

"In addition to these technical considerations, the proposed amendments also involve an important question of timing. During this period of full production and employment with the level of new construction breaking all previous records and new housing starts at a seasonally adjusted annual rate in excess of one million units, there is considerable question as to the advisability of any relaxation at this time in the restrictions now applicable to national banks with respect to real estate financing. Such legislation should be deferred until a more appropriate time when the general economic situation warrants the provision of additional incentives for housing construction.

"You will appreciate, of course, that the exact effects of legislative proposals often can be judged effectively only when drafted in the form of a bill and that, therefore, the comments in this letter are necessarily tentative. Since most of the proposed amendments would amend Section 24 of the Federal Reserve Act, which is directly applicable to national banks, you may also wish to obtain the views of the Office of the Comptroller of the Currency, which supervises such banks.

"The report forwarded with your letter is herewith returned as you requested."

Approved unanimously.

Letter for the signature of the Chairman to The Honorable Harold E. Stassen, Director for Mutual Security, Executive Office of the President, Washington, D. C., reading as follows:

"This letter is in response to yours of July 13, 1953, in which you request, in connection with an inquiry which your Agency is making into the transactions of Gobel, Inc., information concerning any bank accounts in the United States under certain names.

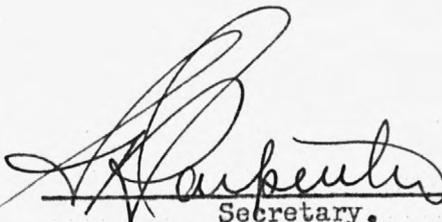
7/29/53

"Information with respect to individual bank accounts does not come to the Board in the exercise of its supervisory functions and would not be included in reports of examination of banks except in very exceptional circumstances and when included would be confidential in character. Also, it has not been felt that it would be appropriate for the Board or the Federal Reserve Banks to use their authority to examine member banks or require reports from them to develop information of this kind.

"Informal inquiries have been made by the Federal Reserve Bank of New York of some of the larger banks in New York City and they did not have accounts in any of the names mentioned in your letter.

"We regret that we are not in a position to be more helpful in this matter."

Approved unanimously.



 Secretary.

The following...
 Head and Title

William H. Gooden, Assistant Secretary
 Division of Examination

Mr. Gooden, New York, New York
 in connection with the...
 Army Bank Administration (1953)

Before their meeting...
 draft of letter to...
 handling requests...
 writing as follows: