

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 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. 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. Vest, General Counsel
Mr. Young, Director, Division of
Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Youngdahl, Assistant Director,
Division of Research and Statistics

Reference was made to a letter addressed to Chairman Martin under date of August 11, 1953, by Dr. Carl E. Parry, a former member of the Board's staff, suggesting the possibility of a revision of part of the monograph entitled "A Short History of Regulations T and U" which he prepared in 1949 and which was distributed within the Federal Reserve System.

The proposal was considered from the standpoint of the value which might be derived from having Dr. Parry undertake a revision of the document, particularly to the members of the Board's staff having responsibilities with respect to margin requirements and stock market credit.

At the conclusion of the discussion, Chairman Martin stated that, while it apparently would be desirable to revise the document at some time,

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he doubted whether the need was so pressing that it should be done at this time. He suggested, therefore, that he be authorized to advise Dr. Parry that the Board, after careful consideration of his proposal, had reached the conclusion that the matter should be held in abeyance for the time being.

Chairman Martin's suggestion
was approved unanimously.

Reference then was made to a letter dated September 3, 1953, from Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, submitting to the Board with a favorable recommendation an application filed by the Provident Trust Company of Philadelphia, Philadelphia, Pennsylvania, to establish a branch at 3701 North Broad Street in Philadelphia. Following an analysis of the application, the Division of Examinations proposed a reply stating that the Board, after carefully reviewing the data submitted in support of the application, had concluded that it should be denied, since it did not appear that the need for additional banking facilities in the area to be served was sufficiently great to warrant subjecting the smaller independent bank (North Philadelphia Trust Company) now operating in the vicinity to the competition of a much larger institution, this being particularly true because of the proximity of the proposed branch to the smaller independent unit.

The proposed reply, together with a memorandum dated September 14, 1953, from the Division of Examinations, had been circulated among the

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members of the Board and Governor Vardaman had requested that the matter be discussed at a meeting.

Governor Vardaman stated that he had reviewed the application with Mr. Williams, President of the Philadelphia Reserve Bank, when Mr. Williams was in Washington last week for the meeting of the Presidents' Conference. He said Mr. Williams requested that, if it should be the decision of the Board to act unfavorably on the application, such action not be taken pending a resubmission of the matter by the Reserve Bank on a somewhat different basis.

Following a brief discussion, it was understood that Governor Vardaman would call President Williams on the telephone and advise him that the Board would defer action on the application in order to permit the Reserve Bank to submit additional information if it so desired.

Mr. Thomas then withdrew from the meeting and Mr. Miller, Economist, Division of Research and Statistics, entered the room.

Pursuant to the understanding at the meeting on September 25, 1953, there had been sent to all of the members of the Board copies of a memorandum to Chairman Martin from Mr. Marion B. Folsom, Under Secretary of the Treasury, dated September 16, 1953, requesting the views of the Board on the consequences of a reduction in the current rate of capital gains taxation, and copies of a memorandum from Mr. Miller dated September 24, 1953, commenting on some of the issues involved.

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Following a statement by the Secretary concerning the action taken by the Board at times in the past in connection with matters of a similar nature, there was a lengthy discussion of what views, if any, should be expressed by the Board with respect to the questions raised by Mr. Folsom. There was general agreement that the Board was not in a position, at least without having a complete study made, to advise precisely what the effects of a reduction in the rate of taxation would be since the System's activities are not directly related to the field of tax policy.

Consideration was given to several suggestions which were made as to the content of a possible reply to the request, and at the conclusion of the discussion, during which Governor Vardaman withdrew from the meeting, Governor Robertson suggested that Chairman Martin be authorized to discuss the matter with Mr. Folsom, with the understanding that if the latter desired a formal reply from the Board, Chairman Martin would take the matter up with the Board again.

The procedure suggested by Governor Robertson was 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 actions taken by the Board of Governors of the Federal Reserve System on September 28, 1953, were approved unanimously.

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Letter to the Board of Directors, Beaver Trust Company, Beaver, Pennsylvania, reading as follows:

Pursuant to your request, the Board of Governors approves the establishment and operation of a branch in Rochester, Pennsylvania, by the Beaver Trust Company, Beaver, Pennsylvania, provided the proposed merger of the Beaver Trust Company with Rochester Deposit Bank, Rochester, Pennsylvania, is effected substantially in accordance with the plan submitted, and formal approval is obtained from the appropriate State authorities.

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

Letter to the First National Bank of Warsaw, Warsaw, Indiana, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee. The exercise of this power, in addition to the authority heretofore granted to act as executor, administrator and guardian of estates, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course.

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

Memorandum dated September 22, 1953, from Mr. Hackley, Assistant General Counsel, reading as follows:

Recently, because of amendments to the Defense Production Act and the issuance of Executive Order 10480 under that Act,

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the Federal Reserve Banks were advised that certain conforming changes should be made in the standard form of guarantee agreement used in connection with V-loans and it was stated that the standard form would be reprinted in the near future to include these changes.

In this connection, the Department of Defense has suggested that the reprinted form of agreement include an additional minor change, the reasons for which are set forth in the attached memorandum dated September 17, 1953 from Mr. John Bachman, Chairman of the Contract Finance Committee of the Defense Department.

Section 9 of the guarantee agreement provides that, if the lending financing institution is the holder of the obligation, it shall not, without the prior consent of the guarantor, bring suit to enforce payment of the loan or institute bankruptcy proceedings against the borrower, or foreclose on or otherwise enforce realization of the collateral for the loan by exercise of a power of sale or "by legal proceedings". If the guarantor fails to give its consent within 10 days, the guaranteed percentage automatically goes up to 100 per cent. In any case in which the guarantor is the holder of the obligation (as after a purchase), the financing institution may request the guarantor to take any of the above-mentioned actions and if the guarantor does not take such action within 30 days, again the guaranteed percentage is automatically increased to 100 per cent.

These provisions have caused the Government to be placed in an awkward situation in at least two cases when the guarantor was the "holder" of the obligation; and the difficulty resulted from the fact that the "legal proceedings" referred to in the guarantee agreement are not literally restricted to proceedings against the borrower. In one case, the financing institution requested the guarantor to take "legal proceedings" against itself in order to enforce a disputed claim on an Army contract of the bankrupt borrower. In the other case, the financing institution requested the guarantor to take "legal proceedings" by intervening in litigation between the assignee for creditors of the insolvent borrower and another company involving a dispute as to the amount payable under the contract which had been assigned as collateral for the V-Loan. Under a literal construction of the guarantee agreement, if the guarantor did not take the legal proceedings requested within 30 days, the guaranteed percentage would become 100 per cent.

It is very doubtful that the provision of the guarantee agreement in question was intended to apply to situations of

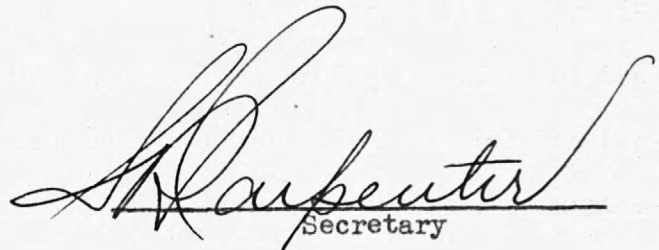
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this kind where the legal proceedings are not proceedings against the V-loan borrower. In order to clarify the matter and make certain that the guarantor will not be penalized, to the advantage of the lending bank, by such an unjustified increase in the guaranteed percentage in cases of this kind, the Defense Department has suggested that after the words "legal proceedings" in section 9 of the guarantee agreement, there be inserted the additional words "against the borrower".

There appears to be no objection to the proposed change. However, although of a minor nature, such a change would be a change of substance; and consequently it would seem necessary for the Board, before finally approving the change, to "consult" all the guaranteeing agencies as required by provisions of the Executive Order. Unless any objection is raised, therefore, we contemplate taking the matter up with the other guaranteeing agencies to determine whether they will have any objection to the proposed change and, assuming that no objection is forthcoming, the proposed amendment would be incorporated in the reprinted form of guarantee agreement.

Approved unanimously.



Secretary