

Minutes for April 23, 1956.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 6 Amendment to Regulation T,
Extension and Maintenance of
Credit by Brokers, Dealers,
and Members of National Se-
curities Exchanges.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>mm</u>	_____
Gov. Szymczak	x <u>mm</u>	_____
Gov. Vardaman	x <u>(v)</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>ccrb</u>	_____
Gov. Shepardson	_____	x <u>lms</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 23, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

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

In accordance with the request contained in your letter of April 12, 1956, the Board approves the designation of G. Ward Stearns as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the designation is made effective.

Approved unanimously.

Letter to the Board of Directors, Lincoln Rochester Trust Company, Rochester, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves

4/23/56

-2-

the establishment of a branch by Lincoln Rochester Trust Company, Rochester, New York, on the west side of East Henrietta Road, approximately 700 feet north of Jefferson Road in the Town of Henrietta, New York, provided the branch is established within one year from the date of this letter.

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

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

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by The Marine Trust Company of Western New York on the southwest corner of Broadway and Conway Street, Depew, New York, provided the existing branch at 94 Main Street, Depew, New York, is simultaneously discontinued and the change of location is accomplished within a year from the date of this letter.

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

Letter to the Board of Directors, First National Bank in Callicoon, Callicoon, New York, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

4/23/56

-3-

A formal certificate indicating the fiduciary powers which the First National Bank in Callicoon is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, Central Bank, Grand Rapids, Michigan, reading as follows:

On January 25, 1956, the Board of Governors approved the establishment of a branch at the northwest corner of Cherry Street and College Avenue, Grand Rapids, Michigan, by the Central Bank, provided the bank is established within nine months from January 25, 1956, and approval of the State authorities is effective as of the date the branch is established.

In accordance with the proposal submitted through the Federal Reserve Bank of Chicago, the Board of Governors now approves the establishment of the branch at the southeast corner of State Street and Lafayette Avenue, Grand Rapids, Michigan, instead of at the location originally proposed and approved. This approval is subject to the same terms and conditions set forth in letter of approval dated January 25, 1956, above referred to.

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

Letter to the Board of Directors, Tracy-Collins Trust Company, Salt Lake City, Utah, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by Tracy-Collins Trust Company in Holladay, Utah, in the vicinity of the intersection of 48th South Street and Holladay Boulevard, provided the branch is established within six months from the date of this letter.

4/23/56

-4-

The Board of Governors also approves the broadening of the functions of the trust company to include the transaction of commercial banking business.

It is understood that the trust company will not engage in commercial banking business or establish the branch in Holladay unless the real estate brokerage business is discontinued.

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

Letter to the Comptroller of the Currency, Treasury Department,
Washington, D. C., reading as follows:

Reference is made to a letter from your office dated February 2, 1956, enclosing photostatic copies of an application to organize a national bank at Cleveland, Mississippi, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by a representative of the Federal Reserve Bank of St. Louis discloses generally favorable findings with respect to the factors usually considered in connection with such proposals. The report indicates that the organizers are planning to increase the initial capital structure of the bank from \$250,000 to \$300,000. The Board of Governors recommends approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Approved unanimously, with
a copy to the Federal Reserve
Bank of St. Louis.

Letter for the signature of Chairman Martin to the Honorable
Karl E. Mundt, United States Senate, reading as follows:

Thank you for your letter of April 10 forwarding correspondence from Mr. John M. Ryan, President of the First

4/23/56

-5-

National Bank in Rapid City, South Dakota, who is concerned about the availability of funds for the home mortgage market. His letter raises two points: one regarding the limitations on the amount of money which a national bank may invest in real estate loans; the second relating to the broader question of fixed interest rates on mortgages underwritten or guaranteed by the Federal Government.

As you know, the Office of the Comptroller of the Currency is the government agency with responsibility for the supervision of national banks. It is this office rather than the Federal Reserve Board, then, which would have the responsibility for considering changes in such limitations. It should be pointed out, however, that these limitations are a matter of law passed by the Congress and that the Comptroller has no authority to "waive" such limitations. The exemption to which Mr. Ryan refers regarding VA loans was adopted by the Congress in the Servicemen's Readjustment Act of 1944 as one means of assuring a supply of funds to finance loans to veterans who would require homes after the War.

The second point which Mr. Ryan raises goes to the question of more flexible interest rates for mortgages insured or guaranteed by the Federal Government, and with this objective the Board has considerable sympathy. The attractiveness of Federally underwritten mortgages does change considerably from time to time because interest rates on such mortgages are not free to conform with general money market rates. Federally underwritten mortgages having relatively low maximum interest rates are less attractive to investors in a market of generally rising yields and are saleable under such conditions only at discounts from par.

In the judgment of the Board of Governors further relaxation at this time of laws relating to mortgage financing would be unwise. Mortgage developments in the past year such as the appearance of discounts may reflect overbuilding. This possibility has been evident in a fairly sharp rise in construction costs and raises the possibility of a future break in real estate values arising out of over-supply. The volume of construction was so great in 1955 that construction costs rose between 5 and 10 per cent. Demands from all users of construction labor and construction materials contributed to this

4/23/56

-6-

result, but the very large demand generated by residential building, particularly those financed through government programs, was the outstanding contributor. Should these construction costs be maintained or increased further the American people face a corresponding rise in their outlay for shelter. If, on the other hand, they are not maintained but fall subsequently because of a sharp diminution in a demand for housing, an unstabilizing economic influence will result. This would follow should overbuilding result in saturation of the market leading at first to a fall in real estate prices below construction costs and subsequently to unemployment in the construction industry.

The total mortgage debt on small homes in the United States rose by a full \$13,000,000,000 during 1955 and about half of this was in government underwritten mortgages. In the context of the existing liberal insurance and guaranty arrangements in the field of federally aided mortgage financing it is the Board's general view that further relaxation of the laws relating to such financing should not be undertaken.

Approved unanimously in the form set forth above, which incorporated certain suggestions made by Governor Balderston when the file was in circulation to the members of the Board.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Solomon dated April 12, 1956, submitting three separate memoranda concerning subjects on which the New York Stock Exchange had requested amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities

4/23/56

-7-

Exchange. The nature of the requests was as follows:

Time allowed for obtaining margin under Regulation T -- Section 3(b) of Regulation T provides that when transactions requiring margin under the regulation are executed, the broker must obtain the margin "as promptly as possible and in any event before the expiration of three full business days following the date of such transactions."

If the required margin is not obtained within the specified maximum time, the broker is required to liquidate positions in the account sufficient to provide the margin, except that in exceptional circumstances an appropriate committee of a securities exchange can grant an extension of time.

The Stock Exchange had renewed an earlier request that the maximum period of three full business days for obtaining margin be changed to four full business days.

Status of bonds under Regulation T--The Stock Exchange had renewed a request that the Board reduce the margin requirements on listed bonds under Regulation T; that is, increase their loan value under the regulation. It suggested a 25 per cent margin (75 per cent loan value) for bonds.

Credit to "floor traders" under Regulations T and U -- The Stock Exchange had renewed a request that credit extended to "floor traders" be exempted from the margin requirements of Regulations T and U.

In commenting upon the first of the three proposals, Governor Szymczak expressed the opinion that the Board might be justified in acceding to the request on the grounds of administrative convenience to brokers. He suggested that the principal question was one of timing; that is, whether it would be advisable to defer action until stock market conditions had changed, or until there was some other occasion to amend Regulation T, since the amendment might be mistakenly interpreted

4/23/56

-8-

in some quarters as a move in the direction of relaxing the margin regulations.

Other members of the Board indicated that they saw no objection in principle to the proposed amendment, which, if approved, would be of little importance from the standpoint of the basic purposes of the margin regulations and would constitute merely a technical change designed to simplify mechanical operating problems of brokers. As to the matter of timing, some feeling was expressed that it might be preferable if adoption of the amendment could be announced under other circumstances than those prevailing at the present time. It was the consensus, however, there was no strong reason why action should be deferred, since the purpose of the amendment would be clear to informed parties, the action would not be likely to attract general attention, and some time might elapse before a more suitable occasion for making the amendment presented itself.

Thereupon, upon motion by Governor Szymczak, it was voted unanimously to amend Regulation T as follows, effective as of the earliest date that would be convenient from an administrative standpoint:

(1) by striking out the words "three full business days" in subsection (b) of section 3 and substituting therefor the words "four full business days"; (2) by striking out the words "three-day period" wherever they appear in subsections (e) and (f) of section 3 and substituting therefor the words "four-day period"; and (3) by striking out the words "or 'three-day riding'" in the footnote to subsection (e) of section 3.

4/23/56

-9-

This action was taken with the understanding that a notice would be sent to the Federal Register, a press release emphasizing the technical nature of the amendment would be issued by the Board, and appropriate letters of advice would be sent to the Federal Reserve Banks and the New York Stock Exchange.

Secretary's Note: The amendment was made effective May 1, 1956. The press release, issued under date of April 25, read as follows:

The Board of Governors of the Federal Reserve System has adopted a technical amendment to its Regulation T, the margin regulation applicable to brokers and dealers. The amendment, which becomes effective May 1, 1956, is attached.

The amendment changes the maximum period allowed for a broker to obtain margin in a margin account from three full business days to four. It is designed to simplify mechanical operating problems of brokers in the light of current mail schedules and brokers' machine bookkeeping methods. However, the regulation continues to require that the broker in all cases obtain the necessary deposit of margin "as promptly as possible"; and the new four-day period, like the previous three-day period, merely states an outside limit which is to be used by the broker only to the extent that it is not possible for him to obtain the margin in less time.

With reference to the request that the margin requirements on listed bonds under Regulation T be reduced, it was stated that the matter did not appear to be of great importance. In response to a question whether any statistics were available which would indicate the magnitude of the problem, Messrs. Young and Solomon expressed considerable doubt that any statistical estimates had been made or could be readily obtained.

4/23/56

-10-

They stated, however, that inquiry might be made of the Securities and Exchange Commission and that possibly some estimate might be developed from the report on a recent margin study conducted by the New York Stock Exchange which was expected to be received later this week.

Governor Mills expressed doubt as to the necessity for taking these further steps. As he understood the effect of the proposed amendment, it would be to expand the amount of stock market credit that could be extended by brokers. The justification for a move in that direction not being apparent to him, he was inclined to feel that the proposed amendment to Regulation T should not be adopted.

Following further discussion, unanimous agreement was expressed with the point of view stated by Governor Mills and it was understood that the New York Stock Exchange would be advised of the Board's decision.

Regarding the proposal that credit extended to "floor traders" be exempted from the margin requirements of Regulations T and U, Chairman Martin said that, despite the criticism which had been directed at their activities, he felt that floor traders had at times served a useful purpose in the conduct of stock market operations. He indicated, however, that many who had acted as floor traders in the past had now become associated with specialist firms and were functioning in that capacity. He thought it likely that most remaining floor traders now had adequate

4/23/56

-11-

capital and that a decision not to adopt the proposed amendment probably would not result in any substantial difficulties.

Thereupon, it was agreed unanimously that the requested amendment should not be adopted at this time and that the New York Stock Exchange should be advised of the Board's decision.

Copies of the following draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, had been sent to the members of the Board prior to this meeting:

This is in response to your communication of April 19, 1956 enclosing a facsimile of the enrolled enactment of S. 1736, a bill "To amend section 5146 of the Revised Statutes, as amended, relating to the qualifications of directors of national banking associations" and requesting the comments of the Board of Governors thereon for presentation with the reports of your Bureau to the President.

In its present form section 5146 requires that at least three-fourths of the directors of a national bank must reside in the State in which the bank is located "or within a fifty-mile territory of the location". S. 1736 would amend the law to provide that at least two-thirds of the directors must reside in the State "or within a one-hundred-mile territory of the location".

The Board of Governors favors approval of the enrolled bill S. 1736.

Following a brief discussion, the letter was approved unanimously.

Governor Vardaman reported receipt of a letter from Senator Humphrey of Minnesota, who advised that Mr. Ira O. Scott, Assistant

4/23/56

-12-

Professor of Economics at the University of Minnesota and the recipient of an award that would enable him to undertake money market studies in New York, would appreciate an opportunity to visit the Board's offices for two or three days en route to New York to discuss the Government securities market with appropriate members of the staff.

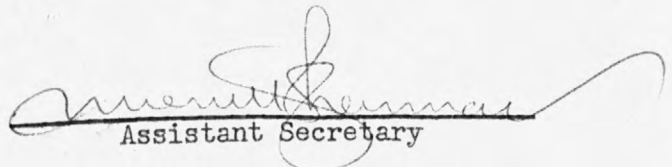
It was understood that there would be no objection to Governor Vardaman's replying that the Board's staff would be pleased to discuss with Mr. Scott the matters in which he was interested.

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

The Secretary's Office later was informed by the Chairman that during the executive session the Board authorized Mr. Thomas, Economic Adviser to the Board, to go to White Sulphur Springs, West Virginia, during the period May 16-20, 1956, to attend the spring meeting of the Investment Bankers Association of America, with the understanding that Mr. Thomas would be reimbursed for the cost of the trip on an actual expense basis.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated April 20, 1956, from Mr. Johnson, Director, Division of Personnel Administration, Governor Balderston today approved on behalf of the Board the appointment of Patricia Arlene Geisel as Clerk-Stenographer in that Division, with basic salary at the rate of \$3,415 per annum, effective as of the date she assumes her duties.


Assistant Secretary