

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 1 Reduction of margin requirements provided in 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 Exchange.

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>(M)</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	<u>[Signature]</u>	_____
Gov. Robertson	x <u>[Signature]</u>	_____
Gov. Balderston	x <u>[Signature]</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, January 15, 1958. The Board met in the Board Room at  
10:00 a.m.

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

Mr. Carpenter, 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. Young, Director, Division of Research and  
Statistics  
Mr. Hackley, General Counsel  
Mr. Molony, Special Assistant to the Board  
Mr. Koch, Associate Adviser, Division of Research  
and Statistics  
Mr. Solomon, Assistant General Counsel

Margin requirements. There had been distributed to the members of the Board copies of a memorandum from Mr. Young dated January 14, 1958, discussing an attached staff memorandum reviewing recent stock market developments. The attached paper showed that common stock prices had been fluctuating for the past three months in a narrow range at a level approximately one-sixth below the peak reached in July 1957, that the decline in prices had restored stock yields to a point above the yields available on high grade corporate bonds, and that the drop in prices was accompanied by a substantial reduction in outstanding customer credit. From July through November, customer debit balances declined 13 per cent and bank loans to customers dropped about five per cent. Total stock market credit outstanding at the end of 1957 was estimated at \$3.6 billion,

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ten per cent less than in mid-1957 and five per cent less than the level which prevailed in April 1955, when the margin requirements were raised to 70 per cent.

The memorandum from Mr. Young stated that in the light of recent stock market behavior and current economic trends a 70 per cent margin level was no longer justified on the grounds given when that level was placed in effect, namely, potential excessive speculative activity and potential undue use of credit to finance such activity, except on the basis that a cyclical revival of the economy was imminent. In present conditions, it did not seem very likely that a reduction in margin requirements would stimulate a strong speculative rise in prices or activity, although it appeared possible that some increase in customer credit would result. If it were assumed that all excess collateral in overmargined accounts would be activated by a margin change, rough estimates indicated that a reduction in margin requirements to 60 per cent could add as much as a half billion dollars to customer debit balances and that a reduction to 50 per cent would create a potential debt rise of as much as \$1-1/2 billion. In summary, it was felt that a margin requirement reduction to 60 per cent, or even to 50 per cent, could appropriately be considered under present circumstances.

At the request of the Board, Mr. Young summarized and amplified the information contained in his memorandum and the attached review of stock market developments. He pointed out that the behavior of the stock market recently reflected a psychology of caution, that fears in the market of a resurgence of inflation were offset by bearishness on

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the part of many observers, and that a mixture of good and bad economic news, weighted on the side of discouraging reports, was flowing into the market. The market was not yet aware that the index of industrial production for the month of December had turned out to be at a level of 136, rather than the preliminary 137, and reports yet to be released on corporate profits and dividend payments would be on the discouraging side. It did not appear to the staff, he said, that a margin action at this time would be any great stimulus to prices or activity although, on the basis of the record in the past when margin requirements were reduced, it seemed probable that there would be some increase in customer debit balances. The extent to which investors would exercise their additional freedom to increase credit purchases and debit balances would appear to depend largely on their appraisal of the general economic situation.

In further comments, Mr. Young said that he thought a good case could be made for reducing margin requirements at this time. Certainly, at least, the reasons that justified the level established in April 1955 no longer obtained, unless one were to assume that an economic revival of considerable strength was imminent. While some people felt that way, the actual situation appeared to be one of recession in over-all economic activity. In the present circumstances, a margin reduction was probably an action that could be taken without much risk of supporting a great deal of speculative activity or excessive use of credit in the market.

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Some would feel, Mr. Young continued, that action, if taken, should be to move to 50 per cent, on the ground that this is a difficult instrument to administer and that actions taken in this area should be relatively decisive. On the other hand, some would feel that with the future uncertain, a tendency in some quarters to foresee a change in economic trends, and the demonstrated resistance of the stock market to selling pressures, it would perhaps be better to move only to 60 per cent. Also, with considerable discussion in the market about possible further actions on the part of the Federal Reserve, a move to 50 per cent might provoke speculation about the likelihood of changes in the discount rate and reserve requirements.

Mr. Thomas agreed that the balance of the arguments seemed to favor a reduction in margin requirements and said that there appeared to be only two possible dangers in such a move. These were that such action might stimulate activity unduly if there should be a change in the economy and that the action would encourage people to buy stocks on credit, following which they would suffer a loss. The first possibility he considered remote, while the second appeared to involve something that could be left to the judgment of the market. In substance, he regarded the current 70 per cent level as too high under present conditions. In this connection, he commented that 50 per cent still constituted a fairly high requirement.

Chairman Martin then discussed the purpose of the margin regulations, as indicated by the statute, and pointed out that customer

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credit in the stock market was now considerably lower than at the end of 1955. The real question, he suggested, was whether the margin requirements were to be used as a flexible credit instrument. While the influence of changes in the requirements on the extent of speculative activity might be debatable, he recalled that some psychological advantage had been achieved, by virtue of good timing, when the requirements were raised to 60 per cent, and later to 70 per cent. In terms of the actual use of funds and credit, it appeared that the increases had resulted in a certain amount of shifting into real estate speculation and into outright purchases of stock.

His own thinking, Chairman Martin said, was that the Board should move to a 50 per cent level if it was going to change the margin requirements at all. If it went to 60 per cent, the move would be likely to generate talk about the possibility of a further reduction, and it appeared to him that the difference in risk as between a move to 60 per cent or to 50 per cent was negligible. Therefore, if the margin requirements were going to be used as a flexible instrument, he would move to 50 per cent at this time. Then, if there should be any strong resurgence and a rise in prices, he felt that the Board should be prepared to move back to 60 per cent if necessary.

Governor Szymczak concurred in the Chairman's views, stating that he would move to 50 per cent immediately and make an announcement this afternoon. He felt that the Board should then watch developments carefully during the spring and see whether it should move back to 60 per cent.

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Governor Mills said that although he did not consider himself expert in this specialized credit area, the Board had a statute to administer which is specific in saying that the margin requirements are to be employed to prevent excessive use of credit in the securities market. The fact that such a situation did not exist at the present time appeared to him to justify a reduction in the requirements. He did not believe that the Board had a responsibility to the public in the sense of protecting people who might be drawn into the stock market through salesmanship as the result of a margin reduction. While it would be unfortunate if people entered the market and the business situation was such as to bring down stock prices, this did not appear to be anything that the Board could prevent. As to timing, he felt that there might be something in considering a change in margin requirements in combination with whatever other Federal Reserve credit actions might be taken over a period of time. In other words, the Board possibly could be charged with taking action directed toward a relatively unimportant segment of the whole credit picture and with being less attentive to its broader responsibilities.

Governor Robertson stated that he also would favor reducing margin requirements to 50 per cent, on the basis that this would put the Board in a position to move back to a higher level should an occasion arise when some psychological advantage could be derived from such an increase. As of today, the 70 per cent requirement seemed to him to be of no value. Furthermore, its retention would mean that the

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Board could not move upward in the event of a change in the economy and obtain whatever advantages might accrue from flexible use of this instrument of credit policy. He then suggested that the Board also consider tightening the withdrawal and substitution rule in conjunction with a reduction of margin requirements. This would mean that the proceeds of sales of securities in an undermargined account must be used to increase the margin of the remaining securities until the whole account was brought up to the prescribed margin level. He pointed out that a tightening of the withdrawal and substitution rule could be put into effect more easily when margin requirements were being lowered than when they were being raised.

There ensued a discussion of Governor Robertson's suggestion during which Governor Szymczak referred to the severe administrative difficulties which were encountered when such a requirement was in effect from 1945 until 1948. Chairman Martin amplified this point by saying that although a more strict withdrawal and substitution rule would seem logical in theory, it is difficult to change the practices traditionally followed in the operation of brokers' offices by a fiat operation. Without a period of conditioning, he felt that a tightening of the rule would be apt to cause a great deal of trouble and dislocation in the conduct of stock market affairs. Comments by members of the staff dealt with the reasons for tightening the withdrawal and substitution rule, if such a change should be decided upon, at a time when a high margin requirement was not necessary. It was also brought out that



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action of this kind might result in considerable shifting or dividing of accounts in an effort to circumvent the rule.

In the light of this discussion, Governor Robertson withdrew his suggestion but said he continued to feel that without a tightening of the withdrawal and substitution rule the Board was not making full use of this instrument of credit policy. However, he still favored action to reduce the margin requirements to 50 per cent.

Further consideration then was given to the reasons for and against a margin requirement reduction at this time. While the sentiment was strongly in favor of a reduction, Mr. Koch suggested that the Board might have some responsibility for the soundness of any additional credit generated by such a move. He pointed out that if there should be a substantial additional decline in stock prices following a reduction of margin requirements, this would mean that certain accounts might be called pursuant to the stock exchange regulations.

Chairman Martin responded by expressing the view that it was better to make a change in margin requirements prior to a decline in stock prices rather than afterward. He felt that the great bulk of the people would not avail themselves immediately of the additional credit which they could obtain through a reduction of margin requirements. If, however, there should be a further decline in prices, such people might come in and use this credit to cushion the market. On the other hand, to act on margin requirements following a substantial fall in prices might generate a certain amount of fear on the part of those holding

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securities. He then addressed himself again to the purpose of the margin regulations and brought out that an objective of eliminating credit in the stock market would be quite a different thing from the stated objective of preventing the excessive use of credit. With the stated objective in mind, it seemed significant to observe that between the end of 1955 and the end of 1957 a fairly substantial drop in the level of stock market credit had taken place.

Governor Balderston expressed agreement with the position that action by the Board today seemed indicated by reason of the fact that total stock market credit was definitely below the level which prevailed when the Board raised the margin requirements in 1955. Since this view appeared to coincide with the opinion of the other members of the Board, he turned to the question of when public announcement of such a decision might best be made.

This question was discussed from the standpoint of achieving effective distribution of the information, avoiding the possibility of advance knowledge of the action, and proceeding in a way which would cause as little disturbance as possible to stock market operations. While it was noted that in the past press statements covering margin requirement actions had been released late in the day, following the close of the market in San Francisco, the view was expressed that this was not too important a factor. All things considered, it was the opinion of the Board that, if action were taken, the release of a press statement at 4:30 p.m. EST, would be satisfactory.

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At the conclusion of the discussion, it was agreed that the Board would meet again this afternoon at 4:00 p.m. to vote on the question of a reduction of margin requirements.

Messrs. Thurston and Thomas then withdrew from the meeting and Messrs. Johnson, Director, Division of Personnel Administration, Masters, Director, Division of Examinations, and Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Classification of "loan trust funds" (Item No. 1). Unanimous approval was given to a letter to the Deputy Comptroller of the Currency, which had been circulated to the Board, in response to his request for information as to whether so-called "loan trust funds" representing monies deposited by real estate borrowers to pay taxes or FHA and fire insurance premiums should be shown as time deposits for condition report and reserve purposes. A copy of the letter is attached as Item No. 1.

Report on S. 2824. In November 1957, the Board considered a draft of letter to the Chairman of the Senate Banking and Currency Committee in response to his request for a report on S. 2824, a bill which would amend the Employment Act of 1946 to make the stabilization of the cost of living one of the explicit and primary aims of Federal economic policy. Action was deferred, however, because of the fact that the Federal Advisory Council had requested a discussion of the bill at its joint meeting with the Board on November 19.

Since that time a revised draft of letter had been distributed to the members of the Board. While the two drafts were similar, the

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earlier one would have stated that an amendment along the general lines of S. 2824 would be in the public interest whereas the revised draft would state that an amendment making it clear that national economic policy is directed toward preserving the purchasing power of the dollar would be in the public interest.

Chairman Martin stated that although there was still no pressure for a report by the Board on this bill, it seemed to him that it would be appropriate to make some comment along the lines indicated in the revised draft. In this connection, he referred to the testimony which he had given before the Senate Finance Committee on August 13, 1957, in which he expressed the opinion that the Congress could contribute greatly to encouraging economic growth by declaring resolutely that stabilization of the cost of living is a primary aim of Federal economic policy. He did not consider the prospect of legislation as being very good but felt that the Board ought to be on record in favor of legislation along the lines of S. 2824.

Question was asked regarding the reasons which might be given for not taking such a position, to which Chairman Martin replied that the bill probably would not pass, the wording of the legislative directive would be difficult, and the problem involved the whole argument of price stability versus full employment.

Mr. Koch said that in economic terms the main argument seemed to be that emphasis would be placed on price stability rather than the

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maintenance of employment. With this in mind, he pointed out that the language of the revised draft of letter might place the Board in a somewhat vulnerable position.

After Governor Balderston indicated that he shared this concern, particularly in the light of the long history of debate on the subject, the staff was requested to develop alternative language prior to further consideration of the matter by the Board.

Messrs. Molony and Koch then withdrew from the meeting.

Request of First Bank Stock Corporation for determination under section 4(c)(1) of Bank Holding Company Act (Item No. 2). First Bank Stock Corporation, a bank holding company of Minneapolis, Minnesota, had requested a determination by the Board pursuant to section 4(c)(6) of the Bank Holding Company Act which would allow it to hold shares of two nonbanking companies on the ground that they were "so closely related" to banking as to be a "proper incident thereto". As to one of these companies (First Banccredit Corporation), it had also filed an alternative request for an interpretation granting exemption under section 4(c)(1) of the Act, which exempts shares of a company engaged "solely in the business of furnishing services to or performing services for" affiliated banks.

A memorandum from Mr. Solomon dated January 15, 1958, which had been distributed to the members of the Board, stated that on the basis of the information presented, the meanings usually ascribed to the word "services", and statements regarding section 4(c)(1) in the Senate

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Committee Report on the Bank Holding Company Act, the Legal Division was of the opinion that the exemption provided in that section was not applicable to First Banccredit Corporation. Submitted with the memorandum was a draft of letter to First Bank Stock Corporation which would take that position.

Following comments by Mr. Solomon on the factual situation and the reasons for the Legal Division's opinion, Mr. Hackley added that the activities performed by First Banccredit Corporation were substantially the same as those performed by two loan companies in the General Contract Corporation case, as referred to at the meeting of the Board yesterday. Therefore, exemption of First Banccredit Corporation under section 4(c)(1) might suggest that the two loan companies in the General Contract case were already exempt.

Since it developed that the members of the Board were in agreement with the position of the legal staff, unanimous approval was given to the proposed letter to First Bank Stock Corporation, a copy of which is attached as Item No. 2, for transmittal through the Federal Reserve Bank of Minneapolis.

Voluntary contributions to Retirement System (Item No. 3). At the meeting on December 9, 1957, the Board discussed action taken by the Retirement Committee of the Retirement System of the Federal Reserve Banks to increase by 50 per cent the limitations on the maximum amount of additional annuity that may be purchased through voluntary contributions by members of the Retirement System. In view of questions which were

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raised at that time, particularly concerning whether any additional expense to the Retirement System would be involved and whether there was justification for any maximum limitation on voluntary contributions, a second memorandum from the Division of Personnel Administration, dated January 3, 1958, had been circulated to the members of the Board.

Following a statement by Governor Robertson that he was still not sure whether there was justification for any maximum limitation but that he did not wish to raise further questions, unanimous approval was given to the letter to the Chairman of the Retirement Committee of which a copy is attached as Item No. 3.

Director appointments. Chairman Martin reported that pursuant to the understanding at the meeting on January 8, 1958, he had talked with the Chairman of the Federal Reserve Bank of Philadelphia about the appointment of a Class C director to fill the existing vacancy on the Board of Directors of that Bank and that Mr. Supplee favored the appointment of Mr. Walter E. Hoadley, Jr., Treasurer of the Armstrong Cork Company, Lancaster, Pennsylvania.

Accordingly, it was understood that steps would be taken to ascertain whether Mr. Hoadley would accept appointment, if tendered, for the unexpired portion of the term ending December 31, 1960, and that the appointment would be made if it were found that he would accept.

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Chairman Martin also reported that he had talked with the Chairman of the Federal Reserve Bank of Atlanta to ascertain the latter's preference as between two persons suggested for appointment to the Board of Directors of the Nashville Branch for the unexpired portion of the term ending December 31, 1960, but that he had not yet received a final reply from Chairman Mitchell.

Secretary's Notes: It having been ascertained that Mr. Hoadley would accept the Class C appointment at Philadelphia if it were tendered, a telegram notifying him of his appointment was sent later in the day.

Chairman Mitchell subsequently advised Chairman Martin that he favored the appointment of Mr. W. N. Krauth, President and Manager of the Colonial Baking Company, Nashville, Tennessee, to fill the vacancy at the Nashville Branch. This advice having been received and it having been ascertained that Mr. Krauth would accept the appointment, if tendered, a telegram notifying him of his appointment was sent on January 17, 1958.

Recognition of length of service. There had been circulated to the members of the Board a memorandum from the Division of Personnel Administration dated December 13, 1957, recommending a program for the recognition of length of service under which each person employed by the Board of Governors would be presented a certificate of appreciation upon the completion of 25 years of service with the Federal Reserve System, including military service if he was employed in the System at the beginning and termination of such service. The presentation of the certificates would be made in the Board Room, with as many members of the Board present



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as possible, and would be followed by a luncheon in the staff dining room in honor of the recipients or by a reception in the cafeteria.

At the request of the Board, Mr. Johnson summarized the proposed program, in which Governor Shepardson concurred, and said that a sample survey within the Board's staff had indicated that a luncheon in the staff dining room would be preferred to a reception. He also referred to recent literature and other information which indicated that the program would be generally in accord with practices favored in the Government and in industry. The manner of presentation, he said, was regarded as particularly important in any project of this kind. In further comments, Mr. Johnson stated that the cost of the recommended program would not be too great, that 49 persons had completed 25 years or more of service in 1957, and that smaller groups would complete 25 years of service each year thereafter.

While the program was regarded favorably, Governor Balderston drew attention to certain reasons why it might not be advisable to encourage the organization of a "25-year club." In making these comments, he recognized that such an organization was not contemplated by the recommended program.

At the conclusion of the discussion, the program suggested in the memorandum from the Division of Personnel Administration was approved unanimously, with the understanding that the alternative of a special luncheon in the staff dining room would be followed. It was

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understood that the cost of the certificates and of engraving them would be charged against the 1957 budget of the Personnel Division, and that the cost of the initial luncheon would be charged against the Division's 1958 budget.

Messrs. Young, Johnson, and Sprecher then withdrew from the meeting.

Review of problem banks. Governor Robertson referred to a memorandum from the Division of Examinations dated December 20, 1957, which had been circulated to each member of the Board in attendance at this meeting, presenting the situation with respect to "problem" State member banks as of October 31, 1957, and reviewing the various changes which had occurred during the first 10 months of the calendar year. He said that he had personally gone over each of the cases referred to in the memorandum, except that of The Continental Bank and Trust Company, Salt Lake City, Utah, his review including not only the reports of examinations but the correspondence folders and discussion with the Division of Examinations. In these circumstances he suggested that the Board might deem it unnecessary to go over the situation at this time.

Chairman Martin then said that in the light of Governor Robertson's report, it would seem satisfactory to defer a review of "problem" banks by the full Board until the next report by the Division of Examinations. At that time, however, he felt that it would be worth while to arrange for a review of these cases at a meeting of the Board.

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There was unanimous agreement with the statement by Chairman Martin.

The meeting then recessed and reconvened in the Board Room at 4:00 p.m., with the same attendance as at the end of the morning session except that Messrs. Thurston, Young, and Molony were present and Mr. Masters was not present.

Reduction in margin requirements (Items 4, 5, and 6). Pursuant to the understanding at the morning session of the Board, the Chairman called for a vote on amending the Supplements 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 Exchange, so as to reduce the margin requirements from 70 per cent to 50 per cent, effective January 16, 1958.

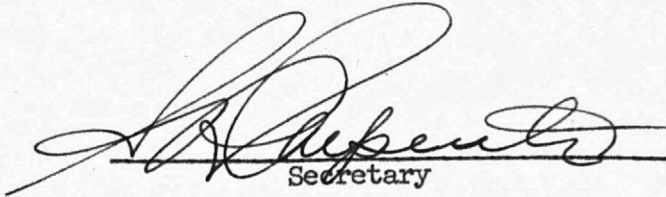
The Board voted unanimously in favor of such action, with the understanding that a press statement would be released today at 4:30 p.m. EST., that a notice would be published in the Federal Register, and that a telegram would be sent immediately to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of Reserve Bank branches advising them of the action and requesting the Banks to print copies of the amended Supplements for distribution in the usual course to interested persons in their respective districts. The texts of the amended Supplements to Regulation T and Regulation U are attached hereto

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as Items 4 and 5, respectively. A copy of the press statement issued in this connection is attached as Item No. 6.

The meeting then adjourned.



Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 1  
1/15/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 15, 1958



Mr. W. M. Taylor,  
Deputy Comptroller of the Currency,  
Washington 25, D. C.

Dear Mr. Taylor:

This refers to your letter of December 20, 1957, with respect to the classification of so-called "Loan Trust Funds", representing moneys deposited by real estate borrowers to pay taxes or FHA and fire insurance premiums as they come due.

This matter was considered by the Board some years ago, and the conclusion was reached that funds accumulated for these purposes might be classified as either demand or time deposits under Regulations D and Q, depending upon whether the funds are utilized or withdrawn within 30 days from the date of their deposit.

For reserve and condition report purposes these deposits would be carried either in Item 1 of Schedule E - Demand Deposits, or Schedule F - Time Deposits, but in the latter event not as an insert item since they are not "deposits accumulated for payment of personal loans."

A copy of the Board's letter of April 28, 1941, on this subject is enclosed for your information.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
1/15/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 15, 1958



Mr. Joseph H. Colman,  
President,  
First Bank Stock Corporation,  
716 First National-Soo Line Building,  
Minneapolis 2, Minnesota.

Dear Mr. Colman:

This refers to the request of First Bank Stock Corporation for an interpretation by the Board of Governors of the Federal Reserve System that section 4(c)(1) of the Bank Holding Company Act exempts the Corporation's retention of shares of First Bancredit Corporation ("Bancredit") from the nonbank divestment requirements of section 4(a) of that Act. The request relates to that portion of section 4(c)(1) which exempts shares of a company engaged "solely in the business of furnishing services to or performing services for" a bank holding company or affiliated banks.

From the information submitted with your request, it is understood that Bancredit is engaged in the business of purchasing installment paper suitable for investment by banking subsidiaries of First Bank Stock Corporation; that all installment paper purchased by Bancredit is sold by it to The First National Bank of Saint Paul (a banking subsidiary of First Bank Stock Corporation), without recourse, at a price equal to the cost of installment paper to Bancredit, and with compensation to Bancredit based on the earnings from such paper remaining after certain reserves, expenses and charges; that The First National Bank of Saint Paul sells participations in such installment paper to the other affiliated banks of First Bank Stock which desire to participate; that Bancredit's purchases consist mainly of paper insured under Title I of the National Housing Act and that, in addition, Bancredit purchases time payment contracts covering sales of appliances by dealers under contractual arrangements with utilities, as well as paper covering home improvements which is not insured; that pursuant to certain service agreements, Bancredit makes all collections, enforces guaranties, files claims under Title I insurance and performs other services for the affiliated banks. It is also understood that Bancredit renders to banking subsidiaries of First Bank Stock Corporation various accounting, statistical and advisory services such as payroll, life insurance and budget loan installment accounting.

Mr. Joseph H. Colman

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Section 4(c)(1) of the Act provides for the exemption from the divestment requirements of the Act of the shares of any company engaged "solely in the business of furnishing services to or performing services for" the bank holding company and its banking subsidiaries. An early version of the Senate bill (S. 2577, before amendment) specifically exempted companies engaged in serving the bank holding company and its subsidiary banks in "auditing, appraising, investment counseling". The statute as finally enacted does not expressly mention any type of servicing activity for exemption and the relevant portion of the Report of the Senate Banking and Currency Committee on amended S. 2577 (84th Cong., 2d Sess., Senate Report 1095, Part 2, p. 3) which is cited on p. 5 of your request and attached hereto for convenient reference, indicates that latitude should be given to the range of activities contemplated by section 4(c)(1) beyond those specifically set forth in the early Senate bill. It nevertheless seems evident that Congress intended such services to be types of activities generally comparable to those mentioned above from the early Senate bill ("auditing, appraising, investment counseling") and in the attached excerpt from the Committee Report on the later bill ("advertising, public relations, developing new business, organization, operations, preparing tax returns, personnel, and many others"). Moreover, the attached excerpt from the Committee Report indicates that the types of servicing permitted under section 4(c)(1) are to be distinguished from activities of a "financial, fiduciary, or insurance nature", such as those which might be considered for exemption under section 4(c)(6) of the Act.

Certain of the activities of Bancredit, such as the accounting, statistical and advisory services referred to above, may be within the range of servicing activities contemplated by section 4(c)(1), but this would not appear to be the case with the main activity of Bancredit, which is the purchase of installment paper and the resale of such paper, at cost, without recourse, to banking subsidiaries of First Bank Stock Corporation. This latter and basic activity of Bancredit appears to involve essentially a financial relationship between it and the banking subsidiaries of First Bank Stock Corporation and appears beyond the category of servicing exemptions contemplated by section 4(c)(1) of the Act. Accordingly, it is the Board's view that First Bancredit Corporation cannot be regarded as qualifying under section 4(c)(1) as a company engaged "solely in the business of furnishing services to or performing services for" First Bank Stock Corporation or banks with respect to which the latter is a bank holding company.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Enclosure

Excerpt from Report of Senate Banking and Currency Committee on Bank Holding Company Act of 1956 (Report 1095, Part 2, p. 3; 84th Cong., 2d Session):

#### "SUBSIDIARY SERVICE COMPANIES

"Section 4 (c) provides certain exemptions from the divestment requirements of the bill. Subparagraph (1) of section 4 (c), as reported by the committee, exempts companies engaged in serving the bank holding company and its subsidiary banks in 'auditing, appraising, investment counseling.' Your committee has found this provision too restrictive as there are many other legitimate types of servicing which should be permitted. Other services rendered by subsidiary companies are in the field of advertising, public relations, developing new business, organization, operations, preparing tax returns, personnel, and many others.

"In order to properly encompass this wide range of activities, your committee amended subparagraph (1) to exempt such companies solely engaged in 'furnishing services to or performing services for' the bank holding company and its banking subsidiaries. Thus, the bill, as amended, would permit a bank holding company to furnish these services to its subsidiaries through a subsidiary company as well as directly by the holding company itself as provided in section 4 (a) (2).

"This provision is not intended to supplant the exemption contained under section 4 (c) (6), where the Federal Reserve Board is given discretion to exempt activities of a 'financial, fiduciary, or insurance nature' which are so closely related to banking as to be a proper incident thereto. Such financial, fiduciary, or insurance activities do not come within the scope of the meaning of the phrase 'furnishing services to or performing services for a bank holding company.' The servicing exemption should not be interpreted to include activities beyond the ordinary category of such services."



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 3  
1/15/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 15, 1958



Mr. M. A. Harris, Chairman,  
Retirement Committee,  
Retirement System of the  
Federal Reserve Banks,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Harris:

The Board has reviewed the action taken by the Retirement Committee of the Retirement System of the Federal Reserve Banks at its meeting on October 14, 1957, which was referred to in your letter of October 24, 1957, at which time the committee voted to increase by 50 per cent the present limitations on the maximum amount of additional annuity that may be purchased through voluntary contributions of members of the retirement system. It is understood that the changes voted by the Retirement Committee would have the following effects:

1. Additional contributions must not appear at the time they are made, or at the time they commence in the case of percentage payments, to be more than sufficient to provide an additional annuity of \$2700 per annum at the time of retirement at age 65. (This is an increase from \$1800 to \$2700.)
2. Members retiring prior to age 65 on special service or disability retirement will be permitted to provide an amount of additional annuity up to \$1800 per annum or the actuarial equivalent (at the member's attained age) or \$2700 at age 65, whichever is greater. (This is an increase from \$1200 to \$1800.)

The Board has no objection to the action taken by the Retirement Committee pursuant to the provisions of subdivision 3 of Section 5 of the amended Rules and Regulations of the Retirement System of the Federal Reserve Banks, as described in your letter of October 24.

The Board appreciates having an opportunity to review the action taken by the Retirement Committee in increasing the limitations on additional annuities prior to announcement of the action.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Item No. 4  
1/15/58

SUPPLEMENT TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 16, 1958

Maximum loan value for general accounts. - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 50 per cent of its current market value.

Margin required for short sales in general accounts. - The amount to be included in the adjusted debit balance of a general account, pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 per cent of the current market value of each such security.

Item No. 5  
1/15/58

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 16, 1958

For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 6  
1/15/58

Statement for the Press

January 15, 1958.

For release at 4:30 p.m. EST,  
Wednesday, January 15, 1958.

The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements of brokers and banks, by reducing margin requirements from 70 per cent to 50 per cent, effective January 16, 1958. The reduced requirements apply to both purchases and short sales. No other change was made in the regulations.