Minutes for November 5, 1963

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 15 Increase in margin and retention requirements.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chairman Martin WM

Gov. Mills

Gov. Robertson

Gov. Balderston CCB

Gov. Shepardson

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, November 5, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Brill, Adviser, Division of Research and Statistics
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Collier, Chief, Current Series Section, Division of Bank Operations
Mr. Sanford, Review Examiner, Division of Examinations

Application of Wachovia Bank and Trust Company. There had been distributed a memorandum dated October 23, 1963, from the Division of Examinations and other pertinent papers regarding the application of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, for consent to merge with The Bank of Randolph, Asheboro, North Carolina. The memorandum brought out that Bank of Randolph was not aggressive, discouraging time and savings deposits by paying only 1 per cent interest, and having no instalment loans as such. The leading figure in management since the organization of the bank in 1897 was the Chairman, who was now 88 years old and had suffered a stroke. An adequate successor was not available within the bank, and efforts to obtain one would be complicated by the fact that the merger proposal had become public knowledge. The bank had had a close correspondent relationship with Wachovia for more than 60 years. Some local industries with credit needs in excess of Bank of Randolph's loan limit had apparently come to feel they could not in all foreseeable circumstances rely on the bank's ability to place those over-line credits with other banks, and therefore were developing connections with larger banks outside the area. On balancing all of the circumstances relating to the factors cited for consideration by the Bank Merger Act, including the fact that approval would result in a slight increase in Wachovia's percentage of the total banking offices and deposits in the State, the Division of Examinations recommended approval of the application.

There had also been distributed a memorandum dated October 29, 1963, from the Legal Division commenting that, while it was impossible to predict that a decision of approval would be reversed in the courts, the case was one of several recently before the Board in which was sharply presented the issue as to the degree to which an acquisition should be considered anti-competitive when it would result in a relatively slight percentage addition to the size of one of a few large banks already dominating banking in a given market area. The three largest banks in North Carolina (including Wachovia), with nearly half the total deposits in the State, already held more than 80 per cent of total deposits in the eight-county industrial core where Asheboro was located. While the big three were about equally balanced there and competition among them would probably not be affected adversely by approval, anti-competitive effects could result from removal of an independent, alternative source of banking services for the small-to-medium sized customer and potential adverse effects on the remaining independent local banks, particularly the only other independent Asheboro bank. In July 1961 the Division of Examinations had recommended that the Board disapprove a merger between Wachovia and First National Bank of Thomasville, an $11 million bank located in Davidson County, adjacent to Randolph County, and part of the same eight-county area. The essential basis for the adverse recommendation was "the situation in North Carolina, perhaps best characterized as a tendency toward oligopoly." In the Board's discussion, which led to a decision of approval, the members of the Board had indicated that they did not feel the time had yet arrived to draw a line restraining further expansion by Wachovia.

At the Board's invitation, Mr. Leavitt summarized the application and compared it with the application by Wachovia to acquire First National Bank of Thomasville, following which Mr. Solomon also commented on the Thomasville application. Whereas the Division of Examinations had recommended denial of that application, here it had recommended approval, partly because the Division felt there was much to be said for following a consistent policy on similar cases unless there was good reason to the contrary. The instant application seemed to present a stronger case for approval than the Thomasville application. There was more competition between the two institutions involved in the Thomasville case, the local bank was a better institution, and the bank remaining in Thomasville was weaker than the independent bank that would remain in Asheboro. Moreover, it was possible to focus a better light in the present application by looking at the industrial complex of North Carolina, in which complex the other large banks in the State were fully as well represented as Wachovia. The Bank of Randolph was relatively small, and--as in the case of any small business--management and ownership must be harmoniously combined for the business to endure. If Wachovia did not take over the Bank of Randolph, some other bank probably would.

The Legal Division then presented further observations on the question of the degree of concentration of banking resources in any given area that would seem to call for restrictive action by the Board under the Bank Merger Act, after which the members of the Board expressed their views.

Governor Mills stated that he would deny the application, the analysis of which he believed to require both a State-wide and a local determination. Looking at the State-wide situation, the degree of concentration of banking resources among the larger banks did not seem to place any one or any group of them in complete dominance. However, Wachovia was well-entrenched in this particular smaller area of the State, and its absorption of Bank of Randolph would further enhance its importance in the most industrialized area of North Carolina. It did not appear to him appropriate to draw a parallel with the Thomasville situation. Although there might be some general similarity between the two cases, there was not an identity of circumstances or anything approaching it that would, in his opinion, justify considering the Thomasville case as a precedent. The Board was confronted with a decision whether the absorption of Bank of Randolph and the transfer of its assets to Wachovia would be contrary to the spirit and letter of the Bank Merger Act; he believed that it would, and that this was a point at which to draw the line. As he understood the laws of North Carolina, none of its large banks was precluded from applying for de novo branches in Asheboro or in the industrial complex. The management problem in Bank of Randolph was distressing, but certainly it had been foreseeable, and the bank should have taken steps to cope with it many years ago. Also, Bank of Randolph, through the loyalty of its customers, had attracted substantial business accounts. A $9 million bank might be considered a small bank, but that was a relative judgment. The size of the bank had to be compared to the size of the community in which it operated, and in Governor Mills' view a $9 million bank in Asheboro was an institution of such importance to the community that it would be regrettable to have its competitive capacity removed.

Governor Mills noted that representatives of Wachovia had met with the Board's staff to discuss the Asheboro application, as had representatives of Union Trust Company of Maryland in regard to another merger application scheduled for consideration today, which raised a question, relating to merger applications in general, to which he did not have the answer; namely, whether applications should not be analyzed on the basis of the formal submissions to the Board and free from the color that came from personal presentations by interested parties. It seemed deserving of consideration whether such consultations tended to make the Board's staff advocates or opponents of the applications.

Mr. Hackley commented that the problem brought up by Governor Mills did involve a risk of swaying staff judgment, yet in many instances the staff had been consulted by representatives of merger applicants to good purpose in that the information in the application itself was thus expanded.

Mr. Solomon agreed that there was some risk in such consultations and said the staff had been careful, if a hearing had been ordered regarding a case, or if opponents had asked for a consultation, not to entertain visits from representatives of one side without also seeing representatives of the other. The assumption had been that it would seem harsh and stand-offish on the part of the Board's staff to say that interested persons could not come in to present their views in a nonadversary situation. In each of the cases on today's agenda, before representatives of the applicants had visited the Board's offices, the staff had made its review and determined upon a recommendation, and therefore the position the Division took was not influenced by the consultations. The visitors, of course, did not know this. Refusal by the Board's staff to allow such consultations would be misunderstood, he felt, and it seemed doubtful that any Government agency would be so strict as to refuse.

Governor Robertson stated that he had sympathy with the position of the Division of Examinations in regard to consistency of decisions. As to receiving representatives of applicants, he did not think it could be avoided, and the Board must rely on the staff to arrive at objective recommendations. As to the Wachovia-Randolph application, he agreed with Governor Mills. This was one of the few cases coming before the Board on which the competitive factor reports from the other supervisory agencies had been unanimous (in this case, adverse). The management factor at Bank of Randolph did loom large, but he thought it was a mistake to consider merger the only remedy for that problem. Approval of the application would result in furtherance of concentration in the largest bank in the State and would cause the remaining small bank in Asheboro to face competition from the largest bank in the State. On those grounds, he would deny the application.

Governor Shepardson commented that certainly the degree of banking concentration was a significant element in this case; the largest bank in the State would take over a little more of the market. However, it seemed to him that on all other points the arguments weighed for approval. As to the matter of management at Bank of Randolph, it was easy to say that someone should have foreseen the problem, but the lack of advance measures was not surprising in such a closely-held bank. There seemed to be a real problem as to whether the Board should say that these people had to stay in business. As to the position of the other independent bank in Asheboro, the Board had seen many instances in which small banks that wanted to continue to operate had thrived and prospered with customers who preferred to deal with a local bank even when it was in competition with a large bank that could offer wider services. According to the available evidence, Wachovia was not a predatory bank that would make it unduly difficult for the remaining local bank in Asheboro to survive. The services rendered to the community by Bank of Randolph had been inadequate, judging from the reports; it had not been aggressive. Wachovia had been the leader in the industrial development of an agricultural State over a period of time, and had conducted a constructive program. In summary, it seemed to Governor Shepardson that the fact that Bank of Randolph had not kept pace with the community's needs, the lack of competition between that bank and Wachovia, the relationship that had existed between them, and the management situation in Bank of Randolph clearly outweighed the adverse factor of further concentration that would result from the merger. In his opinion, this was not an appropriate case in which to call a halt to Wachovia's expansion.

Governor Mitchell remarked that, on the general issue of whether the Board's staff should confer with representatives of applicants, it might be embarrassing if the staff should change its stand after such a conference. He agreed with Governor Robertson that such discussions could not very well be avoided, but there was a time to talk and a time not to talk, and it could be argued that any such conferences preferably should be held prior to the time the staff had formulated its recommendation.

As to the present application, in Governor Mitchell's view it was not a bank that was being merged, only a receiving station; the internal difficulty was not a matter of management but of ownership. He would have preferred that a smaller bank than Wachovia come along to provide the opportunity for a change in ownership, but in the absence of that, it was necessary to take the opportunity that did present itself.

The Bank of Randolph's services to the community had been relatively poor. The situation suggested that this was a deficit area so far as loans were concerned, for which existing management and ownership must bear the blame. It was true that Wachovia could enter Asheboro through de novo branching, but that would probably require the dismemberment of Bank of Randolph. He did not see that it was necessary to follow this route, at considerable expense to Wachovia. Wachovia had a fine reputation and would do the Asheboro community a real service.

Governor Balderston stated that he would approve. Wachovia in the last decade had gained $140 million of deposits through 8 mergers, but that gain represented only 21 per cent of Wachovia's present total deposits. The bank's two principal rivals had been gaining at a much faster pace through the merger route. The family ownership of Bank of Randolph wanted to sell. As had been observed, the situation ought not have been allowed to drift as long as it had without a replacement for the top executive, but saying this did not solve the existing problem. On balance, he agreed with the Division of Examinations that in this case the management factor was more significant than the competitive factor.

Chairman Martin stated that he also would approve. He agreed with the Division's analysis, and thought that denial would only result in a scramble, from which the public would suffer, to negotiate some other merger for Bank of Randolph. Wachovia had a good reputation of long standing, and had nursed Bank of Randolph along for a long time.

With the dominating officer of the small bank now at the end of his career, it did not seem that Wachovia should be deprived of the opportunity to take over the institution.

The application of Wachovia Bank and Trust Company to merge with The Bank of Randolph was thereupon approved, Governors Mills and Robertson dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, and that a dissenting statement or statements of Governors Mills and Robertson also would be prepared.

Mr. Noyes, Director, Division of Research and Statistics, entered the room at this point.

Application of Union Trust Company of Maryland. There had been distributed a memorandum dated October 29, 1963, from the Division of Examinations and other pertinent papers regarding the application of Union Trust Company of Maryland, Baltimore, Maryland, for consent to merge with The Farmers National Bank of Annapolis, Annapolis, Maryland. The Division recommended that the application be approved.

There had also been distributed a memorandum dated November 4, 1963, in which, after commenting on various aspects of the application, the Legal Division stated its conclusion that there appeared to be nothing in the record to counterbalance the adverse competitive effects of the proposed merger - the loss of one of the two independent banks in Annapolis, the further concentration of banking resources in the

State and the Baltimore-Annapolis area, and the elimination of the competition, although relatively small, presently existing between the two institutions.

At the Board's invitation, Mr. Leavitt summarized the principal facts involved in the application, basing his remarks primarily on the Division of Examinations' October 29 memorandum. He noted that the Federal Reserve Bank of Richmond had at first recommended that the application be denied, but subsequently reversed that recommendation after receiving supplemental information from Union Trust. He drew analogies between the present application and others, especially that of Union Trust Company to merge with The Kingsville Bank, Kingsville, Maryland, which the Board approved in 1962 although the Division had recommended denial. In conclusion, he stated that although the Division regarded the Annapolis application as marginal, it felt that the public would not be adversely affected by approval of it, and that the property rights of the Annapolis group, who apparently were ready and willing to go out of business, should be considered.

Mr. Shay then outlined the circumstances the Legal Division had weighed in preparing its memorandum, after which members of the staff responded to several questions asked by members of the Board.

Governor Mills stated that he would deny the application. This was not to say that the absorption of the Annapolis bank would seriously reduce competition in the general area, because that area could be regarded as including the entire Washington-Baltimore complex, in which there were a variety of available banking facilities at no great distance from Annapolis. However, the City of Annapolis, which was a substantial community and the capital of the State, seemed to present a special situation. Farmers National was a fair-sized bank that had proved to be self-sufficient, and the fact that the management had sought a merger need not be a controlling circumstance. The shareholders of a bank had responsibility for the decision whether or not the institution was to continue as an independent bank, and they were not relieved of that responsibility because the management wanted to merge. He was more and more concerned about drawing comparisons between mergers in different areas, but if comparisons need be made, it seemed to him that the pertinent ones were with the three Wisconsin holding company cases denied by the Board earlier this year, where the Board's position had taken account of the fact that the banks proposed to be acquired were fully capable of continuing to conduct business on an independent basis.

Governor Robertson said that he also would deny the application. The adverse competitive aspects were not offset by the banking factors, and he regarded as irrelevant the desire of the management of Farmers National to merge. He observed that it had been mentioned that if the Board denied this application, some other, perhaps even a less desirable, merger might be negotiated by Farmers National, with the supervisory decision not falling within the Board's jurisdiction. This did not alter his judgment as to what the Board's decision should be.

Governor Shepardson commented that there did not seem to be present here the same arguments for approval as in the Wachovia case. He did not think the Board could ignore completely what might be the Annapolis bank's alternatives. If the application was denied, he could conceive of a merger that might be even less advantageous. By a narrow margin, however, he would deny the application.

Governor Mitchell stated that the Legal Division's arguments were persuasive to him, and that he would deny the application.

Governor Balderston indicated that he would also deny the application, on grounds similar to those cited by other members of the Board. He would regret it if a Baltimore bank larger than Union Trust should accomplish a merger with Farmers National after the Board had denied this application, but he thought the factors in the present case pointed to denial.

Governor Balderston also referred to the question that had been raised earlier in this meeting as to the wisdom of consultations by the Board's staff with representatives of parties to bank merger cases. While he recognized the risk involved, he had the feeling that the Board's staff could protect itself by seeing that conversations were conducted with propriety and with enough witnesses on hand so that everyone knew what was said.

Chairman Martin stated that he would deny the Union Trust-Farmers National application. He did not feel that anyone would be punished or suffer by denial, except perhaps the management or stockholders of Farmers National. The public interest would not appear to be injured by denial of the application.

The application of Union Trust Company of Maryland to merge with The Farmers National Bank of Annapolis was thereupon denied unanimously. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration.

All members of the staff except Messrs. Sherman, Kenyon, Molony, Noyes, Hexter, Brill, and Partee then withdrew from the meeting.

Margin requirements (Items 1-3). There was a continuation of the discussion at yesterday's meeting concerning the question of an increase in the initial margin and retention requirements.

Beginning the further consideration of the question, Chairman Martin said he thought it was a close call between going to 60 per cent or 70 per cent. The case for going to 70 per cent was that it would dispose of the matter for the time being; it would dispel speculation about a possible additional increase. If there was a move to 60 per cent, there would be much discussion as to when and if the margin requirements were going to be raised again, assuming of course a continuation of current market trends. This might be a factor of no great importance, but it was something to be considered.

Governor Mitchell observed that in the over-all sense the Board was dealing with a relatively insignificant amount of credit. It would be wrong to put the matter on the basis that the stock market was absorbing a significant amount of credit in the economy, while admittedly this was an extremely sensitive area in terms of people's expectations about the business outlook. There was a function, he added, that was performed by speculation. He would like advice as to how much of a role the use of credit was playing in the execution of the speculative function. As he understood it, only about 25 per cent of the trading activity was on margin.

After Mr. Partee suggested that the figure was probably about 20 per cent, Governor Mitchell noted that this meant that the rest of the trading activity was beyond the purview of the Board's authority. The stock market had exhibited some large fluctuations since the May 1962 break. It seemed as though the real values involved in the bulk of people's equities were being distorted, but the question was whether there was too little or too much speculative activity. It was his impression that things had gotten into a posture where the speculators were more seriously exposed to temptation than for a long time. Therefore, speculation could become cumulative quickly. Even though 75 or 80 per cent of the market trading was done on an equity basis, the remaining 20 or 25 per cent would be in a badly exposed position.

Governor Balderston said it was his impression that present market levels in relation to current and prospective earnings would suggest perhaps a sounder basis for the price level than in previous periods of rising prices. On the other hand, the figures Mr. Partee had cited on the ratio of undermargined accounts at automated brokerage firms suggested that there might be more vulnerability than in the spring of 1962. The question was whether the structure of credit, as it existed today, was vulnerable to what one might regard as the normal range of price fluctuations. It might be advisable, he thought, to take whatever steps were necessary to restore equity values in margin accounts.

There followed further discussion of the role of credit in the stock market and of the indication in the SEC Special Study that the margin requirements then in effect had reduced the volume of forced selling at the time of the 1962 market break.

Governor Balderston then raised a question as to the extent to which the flow of credit into the stock market tended to bring about economic growth and job opportunities. One reason he could see for injecting credit into the market was that a rise in prices induced thereby might cause corporations to sell stock instead of bonds. Mr. Partee replied that he thought there was a distinct tendency for the volume of new stock issues to rise when the market was higher, but the volume nevertheless was small in relation to total financing. He also noted that a higher market has a favorable psychological impact on the holders of stocks, who tend to be wealthier people and businessmen making decisions. They might be more optimistic regarding their own business affairs if there was a continually rising market. This suggested the desirability of a sustainable rise in prices and guarding against abrupt declines.

Chairman Martin commented that the problem of defining "excessive" use of credit in the market was what made administration of the margin regulations so difficult. But it should be remembered that the reason for instituting these regulations was that there had been such a large quantity of margin accounts sold out. The total amount of credit in the stock market was negligible measured against the whole, but there is a difference between ownership of stock and ownership of a house.

Chairman Martin continued by commenting on the possible use of special miscellaneous accounts, following which he observed that it was a fact that there had been a significant increase in recent months in the use of stock market credit, along with indications of a substantial number of new margin accounts. He thought that the 70 per cent margin requirement had reduced distress selling to some extent in the 1962 break. In his opinion a fairly good case could be made that the Board should show it was alert to the situation.

Governor Robertson commented that if initial margin requirements were raised, that would catch people coming into the market, but people switching from one stock to another would not be caught. He felt, therefore, that the Board would be making a mistake in not changing the substitution rule. A purpose of the margin requirements was to bring undermargined accounts up to whatever level the Board fixed, so that if prices fell there would not be so much forced selling. He saw good reason to raise the initial margin requirements and catch the persons coming into the market, but this would not affect those already in the market who were contributing to the volume of credit turnover. The Board, he suggested, could leave the margin requirements at 50 per cent and eliminate the substitution rule. Then, if a further step was necessary later, an increase in margin requirements of even 5 per cent might provide more of a bite than if the Board moved the initial margin requirements to 60 or even 70 per cent today.

Chairman Martin expressed the view that elimination of the substitution rule would involve changing the whole character of the market. He thought that the result would be larger fluctuations. This went back to the question of the volume of stock market credit that was necessary to provide a fluid market and a satisfactory relationship between buyers and sellers at any time. The course Governor Robertson had suggested would encourage people to go into the over-the-counter market. It would drive securities off the exchanges to a floating supply around the country, and the Board would not be able to enforce its margin regulations. There would be a reduction in the general volume of trading in the market. He doubted whether this was what the Board wanted to do.

Governor Robertson noted that when the margin requirement was only 50 per cent, the extent of undermargined accounts was not so great. The higher the margin requirements, the bigger the bite. An increase to 60 per cent might be too big a bite in terms of diminution of the use of credit.

After further comments by Board members and staff on the probable market effects of elimination of the substitution rule, Governor Mills indicated that he would be opposed to including a change in the substitution rule in any revised formula of margin requirements.

Chairman Martin, in expressing agreement with Governor Mills, said he felt that much more consideration should be given to the matter than could be given today before making any change of that sort. A complicated operation was involved, and the Board should know for sure what it would be doing. The Chairman added that if the initial margin and retention requirements were raised, the broker could not completely ignore undermargined accounts. This would exert some pressure on him to think about the situation. Some brokers already had increased their maintenance margins.

After further discussion, Chairman Martin commented that the problem confronting the Board today was whether it wanted to take the rise in stock market credit that had occurred and conclude that it provided a basis, in terms of the use of credit, for taking some action on the margin requirements. The Board had reduced margin requirements from 70 to 50 per cent in July 1962, and it would seem rather logical to conclude that the Board should be moving back up in view of the current market situation, particularly the fact that the amount of stock market credit was back up, even though it was still small in the over-all sense. If there should be a strong bull market, he felt that the pressure on the Board to do something about the credit situation would be great. It seemed to him better to move at the present time.

Governor Balderston said that he would favor the 70 per cent level for initial margin and retention requirements, but he supposed that this would cause the unregulated lenders again to become active. Governor Mills suggested, however, that such an increase in margin requirements might be enough of an admonition of caution to market participants to dissuade them from going to the unregulated lenders.

Governor Robertson inquired whether a move to 70 per cent would not indicate more concern than was justified by the data on stock market credit that had been presented to the Board. After Chairman Martin commented, in reply, that relative figures over a period of time would seem to call for some change, Governor Robertson said that to him the figures signified a situation where the Board ought to be aware of what was going on, but at the same time not take such drastic action as to convey an impression that the situation had gotten out of hand.

Governor Shepardson expressed the view that a modest increase would create a situation where everybody would be wondering when the other shoe was going to drop. He thought it better to make a move at this time that, while not extreme, would be significant. As to the unregulated lenders, it seemed to him that if activity on their part was going to quicken, there might be just about as much possibility of that occurring at 60 per cent as at 70 per cent because a further margin requirement increase would be anticipated. If the Board was thinking of 60 per cent principally as a matter of giving it time to devise a regulation covering unregulated lenders, then it could be said that such a regulation could be prepared and issued within just as short a time if the requirements were at 70 per cent as if they were at 60 per cent. Personally, he would be prepared to go to 70 per cent for both initial margin and retention requirements.

Chairman Martin said that he thought there was a little better case for going to 70 per cent than 60 per cent. As he had remarked previously, a move to 70 per cent would dispose of the matter, for the time being at least.

Governor Mitchell, however, expressed the view that the Board could get practically the same psychological impact at 60 per cent, without running the risk of doing more than it wanted to do. He was persuaded that the current situation differed from 1961 because of the difference in earnings prospects.

Governor Robertson said that this was where he would stand also. There was a need for some action, but it would be bad if the Board took action to go to 70 per cent and this had an adverse psychological effect. It might look as though the Board was panicky rather than just giving notice that it was on top of the situation. He would prefer an increase to 60 per cent in initial margin and retention requirements.

Thus, it developed that all of the members of the Board favored some increase in initial margin and retention requirements at this time.

Four of the members would favor moving to 70 per cent, with the other two preferring to move to 60 per cent.

Chairman Martin recalled that he had started out by saying that he could be persuaded either way. But he thought the underpinning was fairly strong at the present time. He thought there would be an initial reaction no matter whether the Board moved to 60 per cent or 70 per cent. The market probably would be caught somewhat by surprise, but he thought there was something to be said for moving at a time when the market was caught by surprise.

Chairman Martin then proposed that the question be resolved in favor of a change, effective tomorrow, in the initial margin and retention requirements from 50 per cent to 70 per cent, with public announcement at 4:00 this afternoon. The record would show that Governors Robertson and Mitchell preferred 60 per cent. Also, the staff should move as promptly as possible to develop recommendations as to what might be done about unregulated lenders.

Accordingly, with Governors Robertson and Mitchell dissenting for reasons they had stated, the Supplements to Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, were amended, effective November 6, 1963, to increase the margin and retention requirements from 50 per cent to 70 per cent, with the understanding that a press release would be issued this afternoon, that notification of the action would be sent by wire to the

Federal Reserve Banks and branches, and that an appropriate notice would be published in the Federal Register.

Attached as Item No. 1 is a copy of the amended Supplement to Regulation T; attached as Item No. 2 is a copy of the amended Supplement to Regulation U. Attached as Item No. 3 is a copy of the statement on the Board's action that was released to the press at 4:00 p.m. EST today.

Holiday greeting card. After discussion, the staff was authorized to arrange for the preparation of a holiday greeting card that could be sent by the Board next month to the heads of foreign central banks, Reserve Bank directors, and other appropriate parties, the design of the card to recognize the 50th anniversary of the signing of the Federal Reserve Act on December 23, 1913. This action contemplated such expenditure as might be necessary to obtain and send an appropriate number of such cards.

The meeting then adjourned.

> Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 4) approving the appointment of James J. Curvan, Jr., and Robert A. Wallgren as assistant examiners.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 5) approving the appointment of Lloyd A. Bawden, James A. Piskos, and Charles J. Walker as assistant examiners.

Memorandum dated November 1, 1963, from the Legal Division and the Division of Administrative Services recommending that arrangements be made by those Divisions for the printing of a loose-leaf compilation of "Textual Changes in the Federal Reserve Act and Related Laws" in order to bring up to date a similar compilation that was contained in the "Digest of Rulings" published by the Board in 1937, and a mimeographed supplement prepared in the Legal Division in 1956. It was understood that the total cost of the project would be approximately $4,600, and that approval of this project also constituted approval of any over-expenditure that might result in the 1963 printing and binding budget of the Division of Administrative Services.

Memoranda from the Division of Administrative Services recommending increases in the basic annual salaries of the following persons in that Division as indicated, effective November 10, 1963:

	From	To
Quincy W. Barnes, Operator (Mimeograph)	$4,160	$4,202
Theodore Jones, Operator (Mimeograph) (change in title from Mail Clerk-Messenger)	3,770	3,952
Abraham Rose, Mail Clerk	4,085	4,345
James T. Stewart, Senior Mail Clerk (change in title from Mail Clerk)	4,580	4,950

Memorandum from the Division of Administrative Services recommending the transfer of Wesley B. Collins from the position of Senior Mail Clerk to the position of Foreman-Operator in that Division, with no change in basic annual salary at the rate of $5,090, effective November 10, 1963.

Governor Shepardson noted today on behalf of the Board a memorandum from the Division of Personnel Administration advising of the death of Jerome T. Kelley, Senior Federal Reserve Examiner, Division of Examinations, on November 1, 1963.

Secretary

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. T, Supp.]

PART 220 - CREDIT BY BROKERS, DEALERS AND

MEMBERS OF NATIONAL SECURITIES EXCHANGES

Maximum Loan Value; Margin Required for Short Sales

1. Effective November 6, 1963, § 220.8 (the Supplement to Regulation T) is hereby amended to read as follows:

§ 220.8 Supplement - (a) 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 § 220.3, shall be 30 per cent of its current market value.

(b) Margin required for short sales in general accounts. The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d)(3), as margin required for short sales of securities (other than exempted securities) shall be 70 per cent of the current market value of each such security.

(c) Retention requirement for general accounts. In the case of a general account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the "retention requirement" of a registered security (other than an exempted security), pursuant to § 220.3(b)(2), shall be 70 per cent of its current market value.

2. (a) This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to change loan values and margin requirements in order to carry out the purposes of the Act.

(b) The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the thirty day prior publication described in section 4(c) of such Act, are impracticable, unnecessary, and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in § 262.1(e) of the Board's Rules of Procedure (Part 262 of this chapter).

(15 U.S.C. 78c, 78g, 78h, 78q, 78w.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. U, Supp.]

PART 221 - LOANS BY BANKS FOR THE PURPOSE

OF PURCHASING OR CARRYING REGISTERED STOCKS

Maximum Loan Value of Stocks

1. Effective November 6, 1963, § 221.4 (the Supplement to Regulation U) is hereby amended to read as follows:

§ 221.4 Supplement - (a) Maximum loan value of stocks. For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 30 per cent of its current market value, as determined by any reasonable method.

(b) Retention requirement. For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, shall be 70 per cent of its current market value, as determined by any reasonable method.

2. (a) This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to change loan values in order to carry out the purposes of the Act.

(b) The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the thirty day prior publication described in section 4(c) of such Act, are impracticable, unnecessary, and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in § 262.1(e) of the Board's Rules of Procedure (Part 262 of this chapter).

(15 U.S.C. 78c, 78g, 78q, 78w.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Merritt Sherman,
Secretary.

For release at 4 p.m., EST,
Tuesday, November 5, 1963.

November 5, 1963.

The Board of Governors of the Federal Reserve System today amended its Regulations T and U, relating to stock market credit, to increase margin requirements from 50 to 70 per cent, effective tomorrow (November 6, 1963).

The action covers extensions of credit by brokers (Regulation T) and loans by banks (Regulation U) for the purpose of purchasing or carrying securities registered on a national securities exchange. Its effect will be to require persons buying stock on credit to put up a minimum of 70 per cent of the price at the time of the transaction.

The Board also amended the regulation to increase from 50 to 70 per cent, effective tomorrow, the amount that must be retained in an undermargined account with a brokerage firm or bank when there is a sale of part of the securities serving as collateral. An "undermargined" account or loan is one in which the customer has an equity amounting to less than the current margin requirement; i.e., beginning tomorrow, an equity of less than 70 per cent. Thus, in the case of a sale of part of the collateral securing such an account or loan, the amount of the sale proceeds that can be withdrawn by the customer will be 30 per cent. Since June 15, 1959, the amount that could be withdrawn had been 50 per cent.

The Board's actions were taken pursuant to authority granted it by Congress in the Securities Exchange Act of 1934 for the purpose of preventing excessive use of credit for the purchase or carrying of securities.

Since July 1962, when the margin requirements were reduced to 50 per cent from the 70 per cent that had previously prevailed, stock market credit, as reported by brokerage firms that are members of the New York Stock Exchange and by weekly reporting banks that are members of the Federal Reserve System, has risen by $2.1 billion or 43 per cent. Of the increase, nearly $1.8 billion was in customer net debits of the brokerage firms, which rose 49 per cent.

No other changes were made in the regulations.

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Item No. 4
11/5/63

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1963

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania 19101.

Dear Mr. Campbell:

In accordance with the requests contained in your letters of October 30, 1963, the Board approves the appointment of James J. Curvan, Jr. and Robert A. Wallgren as assistant examiners for the Federal Reserve Bank of Philadelphia. Please advise the effective dates of the appointments.

It is noted that Mr. Wallgren's father is an officer of The Philadelphia National Bank, Philadelphia, Pennsylvania. Accordingly, the Board's approval of the appointment of Mr. Wallgren is given with the understanding that he will not participate in any examination of that bank so long as his father is an officer of that institution.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 5
11/5/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1963

CONFIDENTIAL (FR)

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois 60690.

Dear Mr. Ross:

In accordance with the requests contained in your letters of October 29, 1963, the Board approves the appointment of Lloyd A. Bawden, James A. Piskos, and Charles J. Walker as assistant examiners for the Federal Reserve Bank of Chicago. Please advise the effective dates of the appointments.

It is noted that Mr. Walker owns fifty shares of stock of The Waterloo Savings Bank, Waterloo, Iowa, a State member bank of which his father is Chairman of the Board, and that he has agreed to dispose of the stock. Accordingly, the Board's approval of the appointment of Mr. Walker is given with the understanding that he will not participate in any examination of that bank so long as he owns stock of, or is related to an officer or director of, that institution.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.